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STEEL PROFITS INQUIRY

[Report]

OCTOBER 1974 OCTOBRE

ENQUÊTE SUR LES BÉNÉFICES DE LA SIDÉRURGIE



CANADA



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CANADA

By

The Honourable Mr. Justice Willard Z. Estey

Commissioner

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TO HIS EXCELLENCY
THE GOVERNOR GENERAL IN COUNCIL

MAY IT PLEASE YOUR EXCELLENCY,

I, the Commissioner, appointed in accordance with the terms of Order in Council P.C. 1974-1177 of 22 May, 1974, to inquire into and report upon certain matters related to profit margins and inventory practices in the primary iron and steel industry in Canada:

BEG TO SUBMIT TO YOUR EXCELLENCY
THE FOLLOWING REPORT.

Acknowledgements

In the investigation of the matters directed to this Inquiry and in the preparation of this report, I am greatly indebted to the staff for their extraordinary efforts in collecting all the information necessary for this study and in producing the report with the expedition required by the nature of the Inquiry and the terms of the Order in Council. The staff are listed in Appendix B. It is a tribute to their individual interest in the affairs of this community that they responded to a request to join this Inquiry early in June for a project which would carry on throughout the summer notwithstanding, in many cases, prior family and vacation commitments. The burden of the entire investigative process, involving as it did the elaborate accounts and records of Canada's eleven major steel producers, was borne by Mr. William H. Broadhurst and his able assistants, G. B. Webster, J. M. Walker and Fred Bennett, all of Price Waterhouse & Co., Toronto. Mr. Broadhurst's accounting skill, energy and wise counsel made possible the preparation and production of this report in the time required. I am very much indebted to him and to his assistants.

The direction of the arrangements for and the continuity of regular hearings throughout much of the summer fell on very short notice to Commission Counsel, W. J. Anderson, Q.C. His preliminary studies of much of the source material and conduct of the examination of witnesses, kept the record to manageable proportions. Counsel duties were shared with Professor Frank Iacobucci, Associate Dean of the University of Toronto Law School, whose primary and valuable function was the preparation of a study of the recent politico-legal history of the United States steel industry being the foreign industry most comparable to that of Canada.

An investigation of an industry of the magnitude of the steel industry requires the perspective and analytical skills of the economist and we had the good fortune to obtain the services of two well-known Canadian economists. J. Elizabeth Leitch brought to the Inquiry, almost on a full-time basis, her long experience in economics in both government and commerce. Jacques Singer is a consulting economist based in Toronto who, despite his summer commitments, made available to the Inquiry his considerable specialized knowledge of the economics of the Canadian steel industry.

Because the Inquiry made numerous comparisons between the Canadian steel industry and that of the United States and elsewhere, the guidance of an economist knowledgeable in the United States steel industry was sought. We were very fortunate indeed to be able to obtain the services and the friendly support of Reverend W. T. Hogan, S.J., of Fordham University, New York, widely consulted by government and industry alike, in and out of the United States.

A considerable volume of information about the steel industry is regularly assembled by many agencies and departments of the Government of Canada and to establish a continuous liaison with those sources, the Department of Industry, Trade and Commerce made available to the Inquiry Mr. J. D. Stephen Lubin who explored for us these many sources in Ottawa.

We were fortunate to obtain through our Counsel, Mr. Anderson, the continuing services of Robert Doumani, student-at-law, without whose energy and vigilance this report would never have been produced.

My thanks to Mr. Justice Hugh F. Gibson of the Federal Court of Canada whose Airport Inquiry Commission premises and staff he generously made available to us. Mr. Arthur Simms and Mrs. Audrey Faux and other members of the staff saved our Inquiry considerable time and expense.

I would be very remiss if no mention were made of the patient co-operation extended to the Inquiry staff by executives and employees of all the steel producers. An accounting analysis of their operations by an outsider is necessarily disruptive and particular appreciation is extended to the accounting departments of those companies who furnished, frequently on very short notice, the considerable volume of detailed information this study required.

My absence from court occasioned by this Commission necessarily cast a burden on the other members of the Court of Appeal of Ontario who performed my judicial duties in my absence. My gratitude I express to Chief Justice Gale and my colleagues on the Court of Appeal for doing so.

Summary

The information gathered and the accounting analysis undertaken by this Inquiry have led to the conclusion that the Canadian steel industry is not, by current pricing policies generally or by the price increases after 15th May, 1974, to and including 31 October, 1974, specifically, recovering profit margins greater than either the steel producers individually or as an industry have customarily obtained on the sale of their primary products. The questions put in paragraphs (a) and (b) (i) of the Order in Council establishing this Inquiry, therefore, are answered in the negative.

I must add, however, that the steelmaking industry has now obtained a price structure that is producing profit margins at or approaching the levels found acceptable by the industry in prior periods of prosperity in the steel business, so that any future price increases should be linked directly to cost increases, otherwise the profit margins which customarily obtain in the industry will be exceeded. Allowance must be made nevertheless for the presence, in current earnings, of inventory profits which are a phenomenon, partly illusory and, perhaps non-recurring, created by the unprecedented sharp cost increases of 1974.

The evidence is clear and overwhelming that Canadian steelmakers have not so managed their inventories as to achieve greater profit margins than would customarily obtain, and they have in fact been operating through 1974 with less than usual inventories of primary products. In fact steel demand has been such that the steelworks have been in effect working to order (and in some cases on quotas) and have been sold out to the walls. The answer to the question put in paragraph (b) (ii), therefore, is likewise in the negative.

The story in steel in Canada today is broader and more important than these bare answers. Industry in this country currently purchases steel at prices lower than those prevailing in any other Western industrialized nation, has enjoyed a reasonable supply of this prime product and has witnessed the development of a domestic steel industry at least abreast, if not in the vanguard, of world steelmaking technology. In assessing the profit margins of the steel producers, these facts have some bearing.

The industry in Canada and around the world is fed by a common set of raw materials the prices of which are established in the international market. The cost of these materials has shot upward in the last twelve months, particularly coal, scrap steel and energy. Sharply rising costs coupled with the current insatiable world appetite for steel products and the existing limits of world plant capacity, have left the steel industry beset with unusual difficulties. The lead time for increasing capacity for making steel is four years in the case of a major vertically integrated producer operating from iron ore, and somewhat

less for the limited capacity electric furnace industry operating from scrap. Thus the steel consumer simultaneously faces high prices and scarcity. It is not surprising that the community at once looks to the possibility of inventory and/or price manipulation somewhere in the steel industry or its distribution channels. We have found none.

Canada is fortunate in today's difficult circumstances. Notwithstanding a cost acceleration of unprecedented proportions, Canadian steel prices are below world levels by a reasonable margin. The domestic producers have not succumbed to the temptation of selling outside the country at the sharply higher world prices. There is no sign of inventory "management" by the producers for their financial gain or otherwise; because there was no collateral evidence of inventory practices at other levels in the steel industry designed to enhance prices to the consumer, we did not seek a broadening of the scope and authority of this Inquiry. Iron ore and energy supplies commensurate with visible needs appear to be available and only in metallurgical coal, which comes mainly from outside the country, is the picture less favourable.

The United States steel industry is the most comparable to the Canadian steel industry and in this period of difficulty the position of the United States industry has not been as fortunate. It appears to us, without any judgment intended on the management of the United States steel industry, that because of lack of available capital, which in turn has been said to be due to an unattractive history of earnings, or because of Government intervention, real, threatened, or imaginary, the U.S. industry did not generally revitalize its establishment and technology as early as the Canadian and Japanese steel-makers. Neither has the industry increased its capacity in tandem with demand consistently over the past quarter century, as has been the case here.

Even under favourable conditions, the steel industry lives in a highly cyclical environment. Without large capital investment in new technology and facilities, the steelmaker cannot produce profits on the scale necessary in the competitive capital market to attract the funds required to maintain and expand the national steelmaking and fabricating plant. This in turn produces shortages and higher prices and so the cycle continues and accelerates. Fortunately by progressive management, technological pioneering, the investment of risk capital, the availability of skilled work forces, equitable tax structures and a community atmosphere which fostered the growth of a stable relationship between industry and government, Canada has a steel industry of world class; technologically, industrially and financially.

Because the questions posed by the Order in Council are answered in the negative, it should not be inferred that a stationary millenium exists in the steelmaking community. There are some problems. The "Big Three" steel companies, as the three vertically integrated major producers are sometimes called, impart a high degree of concentration to the Canadian steel industry, and the market is characterized by their price leadership. Regionally, most of the smaller producers who produce steel from scrap in electric furnaces incorporate in their price structures, freight costs from the mills of the major suppliers, particularly in times when steel supply is tight. The electric furnace

producers impose a scrap surcharge on all steel sales because of the recent sharp rise in the cost of scrap steel. Scrap steel is in short supply in most regions of the country.

Parts of this country are not as well served in the steel market as other parts. There may be other levels of the industry where pricing and distribution problems arise in times of shortages. An adequate supply of steel produced and marketed competitively is the solution common to all these difficulties.

The Inquiry did not in about 1,200 pages of testimony or in the many replies to letters sent to about 750 steel consumers receive any complaints from steel users about the actions of the primary steel industry. Although the Canadian industry has been running at capacity, there have been shortages of steel, and until these are erased, there will always be the real or potential harm which springs from shortages.

Price divergencies have recently appeared in the Canadian steel market. Some of these may have been caused by the establishment of this Inquiry.

The ability to produce the domestic requirements in high quality steel, at prices competitive with those of the world industry, and in a competitive Canadian market, remain the three key conditions upon which a successful national steel industry depends. From the proceedings in this Inquiry it appears that we are meeting these conditions in Canada today and this has been accomplished by an industry almost entirely Canadian-owned. While it is reassuring to find the answers to the questions advanced by the directive to this Inquiry to be in the negative, perhaps the more fundamental matter is the assurance of the continuance of those conditions, because a sound domestic steel industry is vital to the balanced and sustained growth of the Canadian economy.

Translation of the full report in French will follow in due course.

Sommaire

Les renseignements recueillis et les analyses comptables effectuées au cours de l'enquête ont mené à la conclusion suivante: étant donné, d'une façon générale, les prix présentement pratiqués, ou, plus particulièrement les majorations de prix en vigueur entre le 15 mai 1974 et le 31 octobre 1974, l'industrie sidérurgique canadienne ne réalise pas des marges de bénéfices plus élevées que celles obtenues habituellement par les producteurs d'acier, pris individuellement ou dans l'ensemble de leur industrie, à la vente de leurs produits primaires. En conséquence, il est répondu par la négative aux questions posées aux alinéas (a) et (b) (i) de l'Ordre en Conseil établissant l'enquête.

Je dois toutefois ajouter que l'industrie sidérurgique pratique maintenant des prix lui permettant d'obtenir des marges de bénéfice qui approchent ou atteignent les niveaux considérés par elle comme acceptables au cours de ses périodes de prospérité. Ainsi, toute augmentation de prix devrait, dorénavant, être directement reliée à des accroissements des prix de revient; dans le cas contraire, les marges habituelles de profit de l'industrie de l'acier seraient dépassées. En ce qui concerne les bénéfices présentement réalisés sur les stocks, on devra néanmoins tenir compte des circonstances actuelles. Ces gains constituent en effet un phénomène partiellement illusoire, et peut-être non récurrent, issu des augmentations d'une ampleur sans précédent subies par les coûts en 1974.

Il est prouvé de façon claire et irréfutable que les producteurs canadiens d'acier n'ont pas géré leurs stocks de façon à obtenir des marges de bénéfices plus élevées que celles habituellement réalisées. En fait, ces producteurs ont opéré en 1974 avec des stocks de produits primaires inférieurs aux stocks habituels. La demande d'acier a été telle que les usines sidérurgiques ont en réalité travaillé à la commande (et, dans certains cas, en contingentant les livraisons) et ont entièrement vendu leurs produits. En conséquence, il est également répondu par la négative à la question posée au paragraphe (b) (ii).

La question de l'acier au Canada est présentement plus vaste et plus importante que ne le laissent entendre ces simples réponses. Les usagers de notre pays achètent actuellement de l'acier à des prix inférieurs à ceux en vigueur dans toute autre nation occidentale industrialisée et l'approvisionnement en cette matière essentielle s'est maintenu à un niveau acceptable alors que se développait une industrie sidérurgique canadienne dont les techniques se situent à la hauteur, sinon à l'avant-garde, de celles de l'industrie sidérurgique mondiale. Ces faits ont une certaine portée dans l'évaluation des marges bénéficiaires des producteurs d'acier.

L'industrie sidérurgique canadienne, comme l'industrie sidérurgique mondiale, est alimentée par un ensemble de matières premières dont les prix

sont fixés sur le marché international. Les cours de ces matières ont monté en flèche au cours des douze derniers mois, et particulièrement ceux du charbon, de la ferraille et de l'énergie. La forte hausse des prix de revient, l'appétit insatiable d'acier qui se manifeste présentement dans le monde et les limites actuelles de la capacité de production mondiale d'acier ont créé pour l'industrie sidérurgique des difficultés inhabituelles. Le délai nécessaire à l'agrandissement des installations de fabrication de l'acier est de quatre années dans le cas des principaux producteurs dont l'intégration verticale part du minerai de fer. Ce délai est quelque peu inférieur pour les usines à capacité limitée fabriquant l'acier au four électrique à partir de la ferraille. Ainsi, les usagers ont à faire face simultanément à une hausse des prix et à une rareté. Dans ces conditions, il n'est pas étonnant que le public pense immédiatement à de possibles manipulations concernant les stocks ou les prix, ou les deux, quelque part dans l'industrie sidérurgique ou chez ses distributeurs. Toutefois, nous n'en avons constaté aucune.

Dans les difficiles circonstances présentes, le Canada est privilégié. Malgré l'ampleur sans précédent de l'augmentation des coûts, les prix de l'acier canadien sont notablement inférieurs à ceux du marché mondial. Les producteurs de notre pays n'ont pas succombé à la tentation de vendre à l'exportation, à des prix sensiblement supérieurs aux prix canadiens. Il n'existe aucun signe de "gestion" de stocks pratiquée par les producteurs en vue de gains financiers ou autres; du fait qu'il ne s'est trouvé aucune preuve supplémentaire que d'autres secteurs de l'industrie sidérurgique auraient manipulé les stocks de façon à majorer les prix aux usagers, nous n'avons pas cherché à élargir le mandat et la portée de l'enquête. Il semble que l'on dispose du minerai de fer et de l'énergie suffisants pour les besoins présentement estimés. La situation est moins favorable uniquement pour le charbon destiné à la production sidérurgique, qui est en majeure partie importé.

L'industrie sidérurgique américaine est celle qui ressemble le plus à la nôtre. Or, dans cette période difficile, la situation de la sidérurgie américaine n'est pas aussi heureuse. Sans vouloir porter de jugements sur la gestion de cette industrie, il nous semble que, par suite du manque de capitaux disponibles, celle-ci n'a généralement pas rajeuni ses installations et techniques aussi tôt que l'ont fait les industries sidérurgiques canadienne et japonaise. On dit que ce fait est dû à des bénéfices insuffisants ou à des interventions réelles ou imaginaires, ou à des menaces d'intervention du gouvernement. Cette industrie n'a pas non plus augmenté sa capacité de production de pair avec la demande, au cours des 25 dernières années, comme cela a été le cas au Canada.

Même dans des conditions favorables, l'industrie sidérurgique opère dans un milieu extrêmement cyclique. Sans d'importantes mises de fonds dans des installations et dans la mise au point de nouvelles techniques, le producteur d'acier ne peut réaliser les bénéfices nécessaires pour attirer les fonds du marché très concurrentiel des capitaux, qui sont indispensables à la marche et à l'expansion des usines de production et de transformation de l'acier. Cette situation crée, à son tour, des pénuries et une élévation des prix, et le cycle se poursuit en s'accéléralant. Heureusement, grâce à une gestion éclairée, à des innovations techniques, à l'investissement de capitaux de risque, à la disponi-

bilité d'une main-d'oeuvre spécialisée, à une législation fiscale équitable et à une collectivité qui encourage le développement de relations stables entre l'industrie et le gouvernement, le Canada dispose d'une industrie sidérurgique de classe mondiale. Aux points de vue technique, industriel et financier, elle compte parmi les premières du monde.

Il ne faut pas déduire que tout est pour le mieux dans l'industrie sidérurgique du fait que les réponses posées par l'Ordre en Conseil ont reçu une réponse négative. Il existe certains problèmes. Les "trois grands", ainsi qu'on désigne parfois les trois principaux producteurs d'acier intégrés verticalement, impriment une forte concentration à l'industrie sidérurgique canadienne et, dans le domaine des prix, le marché se ressent de leur suprématie. Sur le plan régional, les petits producteurs, qui fabriquent de l'acier au four électrique avec de la ferraille, incluent dans leurs prix de vente les frais de transport encourus par les grands producteurs à partir de leurs usines, particulièrement dans les périodes où les approvisionnements en acier sont réduits. Ces producteurs majorent aussi les prix de leur acier en fonction de la forte augmentation récemment subie par les prix de la ferraille. Dans presque toutes les régions du pays, la demande de ferraille est supérieure à l'offre.

Certaines régions de notre pays ne sont pas aussi bien desservies que d'autres. Il se peut que des problèmes de prix et de distribution se manifestent à d'autres paliers de l'industrie en période de pénurie. La solution à toutes ces difficultés se trouve dans un approvisionnement suffisant en acier produit et commercialisé de façon compétitive.

Aucune plainte provenant d'usagers de l'acier et concernant les agissements des producteurs primaires d'acier, n'a été enregistrée au cours des témoignages recueillis pendant l'enquête, et qui remplissent environ 1,200 pages, ni dans les réponses aux lettres envoyées à environ 750 usagers de l'acier. Bien que l'industrie canadienne ait opéré à sa pleine capacité de production, il y a eu pénurie d'acier et jusqu'à ce que cette situation ait disparu, le tort réel ou potentiel qui résulte des disettes sera toujours présent.

Des différences de prix se sont récemment manifestées sur le marché canadien de l'acier. Certaines ont pu être causées par l'institution de l'enquête.

Produire suffisamment pour satisfaire la demande canadienne d'aciers de haute qualité, à des prix compétitifs avec ceux du marché mondial, et sur un marché canadien concurrentiel, telles sont les conditions primordiales sur lesquelles repose le succès d'une industrie nationale de l'acier. De l'enquête, il ressort que ces conditions sont actuellement remplies au Canada et ces résultats ont été obtenus par une industrie qui est presque entièrement possédée par des Canadiens. Bien qu'il soit rassurant de constater que les questions posées dans les directives sur la conduite de l'enquête soient négatives, le point le plus important est sans doute l'assurance que ces conditions se maintiendront, car une industrie sidérurgique solide est essentielle au développement soutenu et harmonieux de l'économie canadienne.

La traduction en français du rapport entier sera fournie en temps utile.

The Inquiry

This Inquiry has been established under the Inquiries Act of Canada, being Chapter I-13 of the Revised Statutes of Canada, 1970, and by Order in Council dated 22nd May, 1974, being P.C. 1974/1177 (of which a copy is set out as Appendix "A" hereto) to inquire into recent increases in the prices of primary iron and steel products, and also to inquire into inventory practices as they may relate to profit margins.

Pursuant to the authority granted by this Order a staff consisting of five persons, described in Appendix "B", was assembled and notices of public hearings commencing with the hearing held on 13th June, 1974 were published. A total of eighteen public hearings were held from that date onward to and including 18th September, 1974 in six cities (Sydney, Nova Scotia; Montreal, Quebec; Toronto, Ontario; Regina, Saskatchewan; Winnipeg, Manitoba and Vancouver, British Columbia). The dates and places of these hearings, together with details of public notices, are listed in Appendix "C".

The public hearings fell into three broad categories:

- A. Hearings to determine the meaning of the Order in Council which were held in Toronto following notices published nationally.
- B. Hearings directed to specific increases in prices by individual primary producers of iron and steel products. In these instances the notices of hearings were published generally in the centres of production at the time in question.
- C. Hearings dealing with the steel industry generally, its economic, industrial and financial characteristics.

In addition to the public hearings conducted with respect to B, that is to say, specific price increases by The Steel Company of Canada, Limited (in this report referred to as Stelco) and by other primary iron and steel producers, the Inquiry directed that accounting examinations be made into the books of account of these producers. Additionally, requests were made to each for individual financial information bearing on specific price increases and the consequences thereof; the relationship between earnings before and after price increases and before and after taxes; and other information including capital investment, paid-in capital and sales revenue.

As a result of the information submitted in public hearings and information submitted in response to requests as mentioned above, nine executive sessions were held in which the Inquiry and its staff met with financial officers and other management personnel of the steel producers in Sydney, Nova Scotia; Montreal, Quebec; Toronto, Ontario; Winnipeg, Manitoba; Regina, Saskatchewan and Vancouver, British Columbia, and the material required by the

Inquiry in respect of both phase (a) and phase (b), as will be discussed later, was requisitioned in a form useful to the Inquiry. In the result, through initial and subsequent public hearings, 96 exhibits and 1,201 pages of sworn testimony and submissions were received.

2.1 Confidential Matters

From the inception of public hearings and executive meetings between the Inquiry, its staff and representatives of the producers, it became apparent that the Inquiry would require a considerable volume of information with reference to sales revenues, sales of specific products and types of products, export business, allocation of costs as between divisions, plans for expansion and other matters which, if published in the course of the Inquiry or in its report, would damage the producer in question and might well expose the Canadian steel industry generally to adverse and perhaps unfair competition from abroad. The Inquiry proceeded on the basis that matters classified as confidential by the producer would be received and examined by the Inquiry as such unless later reclassified by the Inquiry as a public document, but only after the producer had been given an opportunity to be heard on the matter of reclassification. This proved to be a successful operating technique and the confidentiality of information so classified has been maintained throughout this report either by the use of algebraic references, percentages, or by combining more than one producer's accounts into composite accounts and tables. The Inquiry, in the result, is satisfied that the public interest has been served by the retention in confidence of submissions relating to the matters mentioned above. The report now presented has not in any way been narrowed in aspect or compromised in its findings by the protection of the confidentiality of this sensitive commercial information. The exhibits marked confidential will be sealed by the Inquiry and delivered to the National Archives for retention should proper access to them be required under due authority at some future time.

A list of all persons appearing before the Inquiry in public hearings is set out in Appendix "D". No submissions were received from the Government of Canada or any agency thereof or from any provincial government or agency thereof except to the extent that some of the provinces have varying ownership interests in producing companies, as will be discussed later in this Report. In response to some 742 letters sent out by the Inquiry to persons engaged in businesses which ordinarily require a supply of primary iron and steel products, 72 replies were received and one person appeared at a public hearing. An analysis of these replies is found in Appendix "E" hereto.

The Terms of the Inquiry

By its terms, the constituting Order in Council divides the inquiry into three parts or phases:

- Phase (a) An Inquiry into increases in the price of steel products effective 15th May, 1974 by Stelco and any increases thereafter announced by any other producer of primary iron and steel products to determine whether profit margins resulted which are greater than would customarily obtain on the sale of such products.
- Phase (b) An Inquiry into whether producers of primary iron and steel products (presumably other than those mentioned in Phase (a)) are obtaining profit margins greater than would customarily obtain on the sale or distribution of these products.
- Phase (c) An Inquiry into whether producers of primary iron and steel products are withholding from sale an inventory of these products in excess of that which would normally be carried, all with the intention of realizing a profit margin greater than would customarily obtain on such sale or distribution.

The foregoing paraphrases the terms of the Order in Council and leaves to be answered later in this report the serious questions related to the meaning to be ascribed to such important expressions as "profit margins" and "customarily obtain" as they are employed in the constituting Order.

Initially our investigation was undertaken on the assumption that Phase (a) would be the subject of an inquiry and report and then Phases (b) and (c) would be undertaken. As the investigation unfolded and evidence and information were obtained, it became apparent that the most expeditious and economical way of making the reports directed was to apply all information obtained to all questions and to combine the result into a single report. This has now been done.

A number of expressions employed in the terms of the Order constituting this Inquiry require definition at the outset so as to properly delineate the scope of the Inquiry.

3.1 "*Steel Products*" and "*Primary Iron and Steel Products*"

In paragraph (a) of the Order in Council an Inquiry is directed into the increase in the price of steel products by Stelco and others. In paragraph (b) of the Order, reference is made to primary iron and steel products and the same terminology appears in the introductory paragraph of the Order in Council. This Inquiry has been conducted on the basis that the expression

“steel products” is co-extensive with the expression “primary iron and steel products”. For the purpose of construing the directive to this Inquiry, primary iron and steel products, (herein for convenience referred to as primary products) have been assigned the definition in Statistics Canada’s classification S.I.C. 291. This classification appears as Appendix “F” and in general consists of the following major categories of product:

- Ingots
- Semi-finished Shapes (Blooms, Billets and Slabs)
- Rails
- Track Material
- Bar Products including Concrete Reinforcing Bars
- Wire Rod
- Structural Shapes
- Plate and Skelp
- Hot Rolled Sheet and Strip
- Cold Rolled Sheet and Strip
- Tin Plate
- Galvanized Sheet

3.2 “Producers of Primary Iron and Steel Products”

Generally speaking, producers of these products fall into two distinct categories. The first and larger class is those vertically integrated producers of steel who mine and process iron ore and produce primary and other steel products. The second and smaller category is those organizations who produce steel from scrap metal and therefrom produce primary and other steel products. This second class includes the production of steel in electric furnaces from a mixture of scrap and iron pellets produced from iron ore by gas reduction. Submissions were made by one or two producers that those in the second category were not primary iron and steel producers since they did not produce iron and thereafter steel but only melted steel scrap to produce ingots or other forms for rolling mill operations. This Inquiry has been conducted on the basis that both classes of producers are primary producers “concerned with the production of primary iron and steel products”, in the words of the opening paragraph of the Order in Council, because whatever process these producers may individually apply the result is the production of a primary product as defined above.

Difficulty was encountered in determining the identity and location of all primary steel producers in this country but by combining Federal government and industry sources the list set forth in Appendix “G” was produced and has been adopted for the purposes of this Inquiry as being a comprehensive list of producers of primary iron and steel products in Canada. There is no industrial or commercial association of such producers and some companies included in this list have minimal production. In the interests of economy and efficiency in making the earliest possible report, the Inquiry has not concerned itself with businesses producing less than 25,000 tons of steel a year or with those enterprises preparing for, but not in actual steel production, on 22nd May, 1974, the date of the constituting Order in Council. Accordingly the eleven

steel producers identified in Appendix “H” are those producers of primary iron and steel products with which this Inquiry has been concerned.

3.3 “Profit Margins”

There is an almost infinite number of definitions in accounting, economics, law and industry for this term. It became apparent early in the proceedings that by reason of the diversity of business organization employed in the various steelmaking undertakings, and by reason of the incomparability of many of these operations, no single definition and technique of measurement would be satisfactory in the determination of profit margins, either for individual steelmakers or for the industry as a whole. As will be seen below, this term and its application in answering the questions put by the Order have not been given a single and invariable definition but rather a series of definitions and testing methods. This approach has been adopted because it was found to be both the fairest and the soundest method of measuring profit margins of an individual company as well as of the industry in these unusual times. It can be readily appreciated that a single arithmetic comparison to historic net incomes after taxes, without reference to the state of the industry and the individual operator, the influence of foreign competition upon both at the time in question, strikes, interest rates, and shortages of material would not form a reliable basis for the relative assessment and comparison of profit margins being realized at the time of investigation and comparison.

A second interpretive question which arises in the same context is whether profit margins must be determined and assessed with reference to individual product items, or to operations inside the steelworks, or on a company-wide basis. Because in most instances the price increases have affected a substantial portion, if not all, of the product line of each producer, the question became more academic and less realistic as we proceeded. We have applied the test on all three bases and, as will be seen, have determined that each basis provides about the same result. For this reason and because of the accounting complexity of isolating profits according to individual products in the various companies which employ a wide range of accounting techniques, it has been found expedient, convenient and accurate to apply the terms of the Order in Council on the basis that a report is directed in respect to company-wide profit margins and not profit margins calculated on an individual product basis except as a method of testing or sampling. This interpretation has the added advantage of placing the investigation under paragraphs (a) and (b) (i) of the Order on the same footing because the terminology in (b) (i) clearly requires a study of profit margins in respect of primary iron and steel products generally and not only those producers whose prices have been increased since the date of the Order in Council. Furthermore, such a meaning facilitates the establishment of a consistent and reasonable meaning for the directive taken as a whole, as will be seen below.

3.4 “Customarily”

Each of the three phases of the Inquiry directed by the Order in Council involves a determination of firstly the amount of the “profit margins” in

absolute terms and secondly whether those profit margins are “greater than would customarily obtain” on the sale of primary iron and steel products.

Before assigning a meaning to the last-quoted expression, less important considerations should be examined. For example, these phrases are identical in paragraphs (a) and (b) (i) of the Order, but the latter phrase when it appears in paragraph (b) (ii) includes the pronoun “they” so that it there reads “greater than *they* would customarily obtain” (*italics added*). The difference in the resulting meaning is discussed as this report proceeds. On the basis of the different factual conditions described in paragraph (b) (ii) as compared to paragraphs (a) and (b) (i) and the construction adopted by the draftsman in paragraphs (a) and (b) (i), we have concluded that the absence of the pronoun from these paragraphs clearly indicates an intention to measure profit margins on an industry-wide basis so as to determine on that basis the profit margins “customarily” realized on the sale of primary iron and steel products.

Next it is noted that the comparative test of the magnitude of profit margins is to be made between that which would “customarily obtain” (present tense) and those actually realized. Clearly the language of the Order requires a determination of profit margins realized in the past and a determination of those to be realized on sales under the increased prices, followed by a comparison of the two. The adverb “customarily” is variously defined as “habitually”, “usually” and “ordinarily”. In the French version of the Order the adverb employed by the draftsman is “normalement” which indicates again a profit margin habitually, usually, or normally recovered in the past on such sales in the same market or level of trade.

Furthermore it must be observed that in the English version in paragraph (b) (ii) both “normally” and “customarily” are employed in identical senses. Our conclusion that the two words must be given the same meaning is reinforced when it is noted that both “normally” and “customarily” appear in the French version as “normalement”. In subsequent discussions of the profits customarily obtained the adjective “customary” is sometimes used as we have assumed that a “customary profit margin” is one that has been customarily achieved.

More difficult is the question as to how much history is relevant in determining that which is “customarily” obtained and whether accounting adjustments to the past realizations are necessary in order to make a comparison with present margins both fair and accurate. For example, are past and present or absolute profit margins to be a basis for such a comparative assessment or should the past standard in the industry be adjusted to reflect rates of return then available generally in commerce on bonds, common shares, preference shares and bank loans. It can be argued that a profit margin in an era of low interest rates cannot be scaled against a profit margin attained in a period of high interest rates and return on investment. Likewise in periods of intense and prolonged inflation should profit margins relate to the need of an industry or an individual enterprise to accumulate sufficient savings (to adopt a neutral expression) for the expansion or even the renewal of its plant at the inflated price level. Without plumbing the mysteries of the new techniques of

inflation accounting, some cognizance must be taken of the degree of inflation in the elements of the “profit margin comparison equation” when different marketing periods are compared.

The same issue arises when the problem of comparing profit margins of different time intervals is examined from another direction. Some commercial enterprises have quite different financial and operational histories from those of their competitors. These may arise by reason of geography, raw material sources, product lines, management practices, labour relations or lack of them, and many other causes. Should a company, saddled with a history which produced low profit margins, either anomalistically or for an extended term, be required to measure future margins against those of the past in a simple arithmetic manner, or should the anomalies of the past be adjusted to balance out the effect of isolated peculiar or non-recurring factors?

As in the case of the interpretation applied to “profit margins” the Inquiry has proceeded on the basis that “customarily” must be given a broad and flexible meaning. This is necessary to ensure realistic commercial results and, above all, to avoid inflicting unfair standards upon an enterprise by applying to its past, present and future operations a rigid yardstick developed by simple arithmetic from profit and loss experiences in years gone by, unadjusted to reflect forces, events and circumstances which distort the fiscal results and render them inappropriate or even misleading for use as a base or standard.

3.5 “*Exacting*”

This word in common usage connotes a demand in the nature of an extortion. In earlier times the word “exaction” was used where a public officer compelled the payment of a fee under the cover of his official authority when no payment was due. This was distinct from “extortion” where the public officer was attempting to recover more than his entitlement at a time when something was due to him. In some respects, therefore, read literally the word “exacting” would have a stronger meaning even than “extorting”. We do not however read the Order in Council in such an extreme sense because in paragraph (a) for example, it would be totally unrealistic to interpret the phrase “where such increases are exacting profit margins” as meaning recovering profit margins where no profit should have been recovered at all. In any case a sensible meaning can be attributed to the entire paragraph and to paragraph (b) as well if “exacting” is read in the same sense as “realizing” can be read in paragraph (b) (ii). This is the interpretation given to the word “exacting” where it appears in paragraphs (a) and (b) for the purposes of this Inquiry.

In the preamble to the Order in Council reference is made to “a Report by the Ministry of Industry, Trade and Commerce which indicated that there appears to exist in the industry concerned with the production of primary iron and steel products a situation that is having or is likely to have a substantial effect on the living costs of Canadians generally.” It turned out on inquiry that no such Report existed in the sense of a written or formal presentation. The Federal government departments concerned with this general

subject of steel and trade, namely the Ministries of Industry, Trade and Commerce; Consumer and Corporate Affairs; and Energy, Mines and Resources, subsequently took the position that the Government of Canada would not participate as a party to the Inquiry and would advance no submissions either as to factual situations or the solution of any problems found to exist. Each Ministry did volunteer to make available any personnel, information or statistics related to the subject of the Inquiry and in fact did so when requested. No representative of the Government of Canada appeared in any of the proceedings before the Inquiry.

Importance of Steel in Canadian Industry

4.1 Pervasive Nature of Price Increases

The importance of steel in any economic community, including Canada, needs no further illustration than to point out the immediate effect on consumer durable goods of an increase in the price for steel. The directness and immediacy of the community impact of an increase in the price of steel are well illustrated by the effect of steel increases on the price of automobiles. The evidence is that the United States steel price increases in May and June 1974 raised the cost of steel in an average vehicle produced by Chrysler Corporation in the United States by \$102.00.

It was generally agreed by steel management executives appearing before this Inquiry that the price of steel has a continuing and pervasive effect in the community. A change in the price of steel ripples outward from the mill into every segment of the community. The fact that the general public does not buy steel as such in no way reduces the importance of this pervasive characteristic of steel in the modern commercial and industrial society. There are no doubt other individual materials whose price changes have such a sequential price influence as that of steel (and no doubt price changes of some other materials affect the cost of goods and services to a degree greater than a change in steel prices) but we encountered no evidence of any other single material whose price and availability were of greater general importance to the economic structure of the community, than steel. Obviously degree of impact is a question separate from pervasiveness, and will vary according to the importance of steel in a particular product. The question of the general impact of steel pricing is dealt with further in Chapter 6.

That, of course, is not to say that a steel price increase is by itself inflationary or that by the simple and crude device of frustrating an increase in the price of steel, inflation will be arrested or even retarded. One of the questions to be answered here is whether a price increase merely passes along a cost increase or does it go further and increase the profit margin of the producers. The latter result would clearly be an element of inflation, but whether it is or is not, one of the key matters to be determined here is whether the steel producers are the victims or authors of inflation in respect of their price increases after 22nd May, 1974 (15th May, 1974 in the case of Stelco), and the resultant profit margins. But the whole and profound question of causes of, and contribution to, inflation and measures to be taken is fortunately beyond the area we must examine in order to answer the three questions propounded in the Order.

4.2 The Export, Import Balance

Canada since its inception has been a net importer of steel. Over the long run, the absolute tonnage of steel imports has increased, but it remains about constant as a percent of total apparent steel consumption.

The following table shows the trend of domestic production, imports and exports and apparent consumption since 1960:

TABLE 1
**Supply and Demand for Raw Steel in
Canada 1960-1973**

(thousands of net tons in terms of raw steel equivalent)

Year	Domestic Production	Imports	Exports	Net Imports	Apparent Consumption	Imports as a percent of Apparent Consumption
1960	5,790	1,353	994	359	6,149	22.0
1961	6,466	1,096	841	255	6,721	16.3
1962	7,173	1,046	990	56	7,299	14.3
1963	8,190	1,295	1,369	-74	8,117	16.0
1964	9,128	2,135	1,485	650	9,778	21.8
1965	10,068	2,892	1,235	1,657	11,725	24.7
1966	10,020	2,096	1,290	806	10,827	19.4
1967	9,701	1,981	1,368	613	10,314	19.2
1968	11,198	1,884	2,079	-195	11,004	17.1
1969	10,307	2,934	1,423	1,511	11,818	24.8
1970	12,346	2,189	2,299	-110	12,236	17.9
1971	12,170	3,136	2,130	1,006	13,175	23.8
1972	13,073	3,355	2,126	1,229	14,303	23.5
1973	14,755	3,142	2,270	872	15,627	20.1

NOTES: (1) Details may not add to totals because of rounding.

(2) Apparent consumption equals domestic production plus imports minus exports.

SOURCE: Mineral Resources Branch, Department of Energy, Mines and Resources, unpublished study.

Since 1960, both exports and imports have been rising, and on balance Canada remains a small net importer of steel. The significance of the increasing Canadian domestic production is seen at once if, to the cost of imports in 1973, is added the market value of that part of the domestic production coming from capacity added since 1960. If the industry had not expanded its production since 1960, Canada would have had to import the equivalent of an additional 7.7 million tons of raw steel in 1973 (keeping exports constant at the 1960 level). In round figures the additional cost of such imports would have been between \$1¼ and \$1½ billion. If the trade balance on steel could be improved still further to the extent that Canada becomes a net exporter of steel, this would strengthen the country's balance of payments position.

4.3 Employment and Investment in the Industry

The steel industry is today a large employer. Each increase in its capacity has, in turn, increased employment. The following table illustrates the growth of jobs in the steel industry:

TABLE 2

Employment in the Canadian Iron and Steel Industry – 1960-1972

	Production and Related Workers	Total Employees
1960.....	29,172	35,364
1961.....	28,408	34,749
1962.....	30,101	36,593
1963.....	31,112	38,196
1964.....	33,911	41,505
1965.....	36,434	44,274
1966.....	37,984	45,999
1967.....	36,078	44,203
1968.....	36,324	44,634
1969.....	34,441	42,954
1970.....	38,317	49,169
1971.....	38,308	49,601
1972.....	38,378	49,758
Percent increase 1960 to 1972.....	31.6	40.7

SOURCE: Statistics Canada, *Iron and Steel Mills*, Cat. No. 41-003, Annual Issues.

These gains in employment have been made possible by very large capital investment expenditures. As Table 3 shows, this industry expended \$2.1 billion on new investment between 1960 and 1973. Including amounts scheduled to be invested in 1974, this total will exceed \$2.4 billion.

TABLE 3

**Capital Expenditures in the Canadian
Iron and Steel Mills Industry, 1960-1974**

(Millions of Dollars)

	Construction	Machinery and Equipment	Total
1960.....	\$23.8	\$ 91.0	\$114.8
1961.....	13.0	54.6	67.6
1962.....	20.9	92.0	112.9
1963.....	28.3	83.8	112.1
1964.....	36.6	169.5	206.1
1965.....	34.4	128.9	163.3
1966.....	35.1	175.5	210.6
1967.....	19.1	103.8	122.9
1968.....	11.7	53.7	65.4
1969.....	15.9	92.5	108.4
1970.....	39.7	168.2	207.9
1971.....	32.6	169.0	201.6
1972.....	36.2	170.9	207.1
1973 Preliminary.....	33.2	182.8	216.0
1974 Intentions.....	76.8	247.1	323.9

SOURCE: Statistics Canada, and the Department of Industry, Trade and Commerce Supplements to *Private and Public Investments in Canada*, Annual Issues.

4.4 Importance of Domestic Sources

Perhaps of equal importance is the ready availability of adequate steel supplies to an industrial community. In times of world shortage of steel, such as we are presently experiencing, producers service in the first instance their own domestic markets. The major offshore producers quickly develop a two-price system with the export prices calculated according to what the traffic will bear. It must be observed at the outset that the evidence gathered by this Inquiry is that the Canadian producers have been careful to give priority to the servicing of the domestic market and at prices well below those prevailing outside the country.

Evidence before this Inquiry indicates that if the Canadian steelmakers had elected to export more of their output during this period of shortage, they could have recovered approximately \$100 per ton more than by selling on the domestic market. Conversely, the evidence indicates that foreign steelmakers have been selling steel in Canada at a price greatly in excess of their domestic price; such is the measure of the importance to the steel user of the availability of steel at the time it is required in his industrial operation. No modern industrial community can afford to erect an industrial-commercial complex dependent on a foreign-based steel industry or even a steel industry with a significant segment located beyond its boundaries.

4.5 View of United Steelworkers of America

The employees working in the steelworks of ten of the eleven principal steelmakers are represented in collective bargaining by the United Steelworkers of America. The National Director of the union, Mr. William Mahoney, in proceedings before this Inquiry advanced two main propositions:

- A. The steel industry is one, if not the most important, of the industries in our community and should be continuously subject to a high level of accountability to the public;
- B. Price increases in steel have not been occasioned by wage demands.

As to the second proposition, because wages have not increased as markedly as material costs in the past twelve months, there may indeed be support for the union's view if events can be measured on this short time base. Examined over a longer and more valid period of time, the proposition may lose much of its effect but this, of course, is beyond the scope and mandate of this Inquiry. The factors contributing to cost increases are discussed in Chapters 8, 9 and 10.

Mr. Mahoney stated:

"As for the Steelworkers Union as a collective bargaining agent, we are certain that the interests of our members as employees can be advanced effectively by means of the bargaining process without contributing to inflation and without in any way impairing the ability of the industry to develop and expand its productive facilities at a rate consistent with the needs of the Canadian economy."

While the correctness of this assertion is only collaterally relevant to our Inquiry, the evidence does indicate some foundation for the union's statement and the public record should therefore so state.

The first proposition however is directly germane and very important to this Inquiry.

The union brief spells out its theme in this way:

"One of our most important assumptions, obviously, is that the steel industry is far too important to be accountable only to its shareholders. It is high time, we believe, that the public interest in this and other basic industries was reflected in the adoption of new standards to ensure a high level of accountability to the public, for corporations whose power – as they have implied – is so intimately related to the economic health of the country."

The Chairman of The Toronto Stock Exchange, Mr. Robert Morgan, in his appearance before this Inquiry agreed with the union's submission on the importance of the steel industry in the Canadian community. What conclusion should be drawn from this generally accepted fact is more difficult and we defer our comments on that aspect of the matter until Chapter 12.

The union went on to assert that if steelmakers establish price structures which result in levels of earnings that allow the steelmakers to finance a significant part of plant expansion out of their savings, two harmful consequences result: (1) present day consumers are paying for tomorrow's industrial plant, and (2) the companies are relieved of the discipline attendant upon going to the public market to borrow funds for the expansion of their facilities. In short, it is said that the steelmaker thereby escapes accountability to anyone other than the shareholders, a situation tantamount to taxation without representation and escape from the standards of public interest.

So far as it goes, the argument has merit. The other disciplines, that is public and private vigilance and control, in reality remain at work. Tax provisions affecting the net earnings of the steelmakers and their ability to accumulate retained earnings to finance expansion are of course continuously under direct public control through Parliament. The steel industry must resort to the market for funds for expansion and renewal of plant by either equity or debt financing from time to time because internal resources are not sufficient. The evidence is that equity financing is not a route available to the steel industry in North America at this time and that debt financing to the extent of \$170 million has been obtained in the public market by the Canadian steel industry within the last eight months. The importance of this amount of borrowing by bond issue is emphasized by the fact that total borrowings on the public market in Canada in the first eight months of 1974 amounted to \$1.46 billion. It should also be remembered that eight of the principal steelmakers are constantly under public scrutiny through stock exchange listing of their securities (or those of their parents) and by provincial securities administrations; and three steelmakers are either owned outright or are subject to substantial ownership by Provincial Governments.

Whether or not all of the reasoning applied by the union be valid, their view of the basic importance of steel to our economic strength remains unassailable. No one appearing before this Inquiry has suggested what, if any, new responses to this reality are required, whether in the form of new institutions or laws or modification to those existing or otherwise. We will return to this question in Chapter 12. It is clear that if Canada is to have a secure and adequate supply of steel from domestic sources, free from the hazards of supply sources beyond our boundaries, the initiative must be maintained in the private sector, supported by the application of some well-defined principles in the public sector. This should at the same time allow and assure that the Canadian industry will increase its capacity by 50 percent in the next decade, which is the magnitude of anticipated growth indicated by the evidence. It is doubtful, however, if a bargaining agent would ever have a mandate from its membership to advocate a programme which might curtail employment opportunities and we have not interpreted anything submitted here by the union in a way which would even risk that result.

It should also be observed that no witness has appeared before this Inquiry to complain that Canadian steel producers' prices are too high or that pricing practices of the industry are improper or in some way abuse the position of responsibility occupied by this industry. On the contrary, many of the responses to the inquiries sent to steel buyers, as mentioned in Chapter 2, are commendatory of the Canadian primary steel producers' efforts to make steel available and at prices below the international market level in this time of world wide shortage. One or two complaints were received about practices of the primary producers which are in no way related to the profits earned by or the prices charged by the industry and are therefore not within the competence of this Inquiry.

The Steel Industry in Canada

While the Inquiry must necessarily concentrate on profit margins, past and present, in the steel industry, some background including the history and present stage of development will be helpful.^(a) A full appreciation of the industry's cyclical pattern is necessary in order to assess the propriety of a profit margin once it is isolated, and this in turn requires some discussion of the discernible trends in the Canadian industry. This study has been made for the Inquiry by J. Elizabeth Leitch and appears as Appendix "I".

Industry background material has been kept to a minimum. Any brief description of the technology and the structure of the Canadian steel industry and any analysis of long term steel price trends in Canada must begin by emphasizing that Canadian steel prices today are significantly lower than those in the United States. Under recent world steel market conditions, Canadian steel prices are known to have been significantly lower than those of Western Europe and Japan. A special compilation made by the Inquiry compares representative U.S., West German and Canadian prices in Table 7 on page 37.

From very small beginnings at the turn of this century, the Canadian steel industry has grown to be the eleventh largest in the world, with a raw steel production that amounted to more than 14.5 million tons in 1973. A significant part of this growth has occurred since the end of World War II, and particularly since the mid-1950's, when the Canadian steel industry embarked on a large programme of capacity expansion, designed both to meet the relatively rapidly growing demands for steel in an expanding Canadian economy and to reduce the relative importance of imported steel in the domestic market.

5.1 *Steelmaking Processes and Technological Change in the Canadian Steel Industry*

The principal materials required in the production of steel are bituminous coking coal, iron ore, limestone, scrap, water and air. The sequence of steel production processes are classified as follows:

The large, integrated producers such as Stelco, Dominion Foundries and Steel, Limited (Dofasco) and The Algoma Steel Corporation, Limited (Algoma) begin their steelmaking with the manufacture of coke of metallurgical grade from suitable grades of bituminous coal.

As the next step, these integrated producers charge iron ore (often beneficiated), coke and limestone into blast furnaces to produce pig iron.

(a) Previous inquiries on the Canadian steel industry were conducted by the Prices and Incomes Commission in the fall of 1969 (published as *Steel and Inflation* in February 1970) and again in 1971 (*Steel Prices* July 1971). For an earlier study see a report by the Tariff Board, *Basic Iron and Steel Products*, Reference No. 118, 1957.

At this point, we should mention that Stelco has been among the leaders of the world steel industry in applying and developing new iron-making technology. Through many innovations since 1950, productivity of the company's blast furnaces has more than tripled, while coke usage per ton of iron has been reduced by more than one-half.

The third step is the making of raw steel, which is produced by refining pig iron and/or melting steel scrap in basic oxygen, open hearth or electric steel furnaces. This step is common to all 11 companies studied by the Inquiry:

- A. The integrated companies produce their raw steel in basic oxygen furnaces or open hearth furnaces. The revolutionary technological change in steelmaking during the post-war period has been the basic oxygen furnace, which has both lower production costs and capital costs compared to conventional open hearth furnaces. Dofasco was the first North American producer to install this process at its Hamilton plant in 1954. Today, the basic oxygen process has come to account for more than 55 percent of the Canadian industry's raw steel capacity. An additional 28 percent of the raw steel capacity is accounted for by open hearth furnaces.
- B. The non-integrated producers, referred to as "electric furnace" mills in this report, produce their raw steel in electric furnaces using steel scrap as a principal raw material. This segment of the industry accounted for 17 percent of the raw steel production capacity in 1974. Because of regional scrap shortages, the largest of the electric furnace producers, Sidbec-Dosco Limitée (Sidbec), embarked on the adaptation of a new technological process in 1970, using an iron pellet natural gas reduction process as a substitute for scrap. It is the only company in Canada, and the third in the world, to use this particular new technological process. This is another example of the willingness of the Canadian steelmaker to pioneer new techniques to reduce costs or to adapt processes to the resources of this country. Stelco is now adding a similar process to its present iron ore production facilities.

The final stage of production in the steel industry is the rolling process. It is at this stage that the various products listed in Appendix "J" are produced. They are shipped directly to steel-using industries such as the automotive, construction and container industries; or to the fabricating facilities of some of the steelmakers; or to wholesalers and warehouses for further processing and distribution. The material loss incurred in converting raw steel produced in the basic oxygen, open hearth and electric furnaces to the primary products of the rolling mills is approximately 25 to 30 percent, which material loss is recycled as scrap steel in the furnaces.

5.2 Description of 11 Steel Companies Surveyed by the Inquiry

There are 11 steel companies in Canada producing a significant volume of steel for general industrial use. The relevant price increases of the 11 producers

have been studied in detail by this Inquiry and the accounting analyses of these price increases appear in Chapters 8, 9 and 10. For descriptive purposes, these companies can be classified as follows:

- A. At the centre of the Canadian primary iron and steel industry are three large integrated producers whose operations span from the production of coke on to pig iron and raw steel, and further into rolling mill products sold to final users. These big three companies are Stelco, Dofasco and Algoma. The major producing mills of these three companies are in Ontario. These companies are integrated, in various degrees, "backward" into mining operations, providing a substantial portion of their iron ore, coking coal and limestone requirements, and in other instances, "forward" into further fabrication operations. The three companies account for approximately 80 percent of the industry's raw steel capacity. The Canadian steel industry is thus characterized by a relatively high degree of concentration.
- B. Ranking next in size are the Sydney Steel Corporation (Sysco) and Sidbec. The former is a partially integrated steel plant located in Sydney, Nova Scotia, which was taken over from Dominion Steel and Coal Corporation and is now owned and operated by the Province of Nova Scotia. Sysco produces steel from iron ore, blast furnaces and open hearths, and markets finished and semi-finished primary products. Sidbec is a company owned and operated by the Province of Quebec, with steel plants at Montreal and Contrecoeur, which it acquired from Dominion Steel and Coal Corporation in December 1968 along with fabricating plants in Lasalle, Quebec and Etobicoke, Ontario, and it produces steel in electric furnaces using sponge iron pellets and scrap as mentioned above.
- C. The other six companies surveyed by the Inquiry use scrap metal as a principal raw material in their production of raw steel in electric furnaces. These companies are the Interprovincial Steel and Pipe Corporation Limited (Ipsco) at Regina, Saskatchewan; Lake Ontario Steel Company Limited (Lasco) at Whitby, Ontario; Burlington Steel division of Slater Steel Industries Limited at Hamilton, Ontario; Manitoba Rolling Mills division of Dominion Bridge Company, Limited (MRM) at Selkirk, Manitoba; Western Canada Steel Limited at Calgary, Alberta and Vancouver, British Columbia; and Atlas Steels at Welland, Ontario. These companies produce a range of rolling mill products generally reflecting the local or regional composition of steel demand. Atlas Steels is Canada's largest stainless and specialty steel producer, which also produces a small quantity of carbon steel accounting for approximately 15 percent of its steel output. The Inquiry's examination of the company was confined to Atlas' production and marketing of carbon steel.

A map showing the major production facilities of the primary iron and steel industry in Canada appears in Appendix "K". The product structure of the 11 companies dealt with in the Inquiry appears in Appendix "J".

The Canadian primary iron and steel industry is characterized by a very high degree of domestic ownership and control. With the exception of two smaller companies, the 11 steelmakers surveyed are controlled by Canadian shareholders. The two exceptions are Atlas Steels, which is a division of Rio Algom Mines Limited, controlled by the Rio Tinto-Zinc Corporation Limited in the United Kingdom. Similarly, Slater Steel Industries Limited is controlled through intermediate subsidiaries by the British Steel Corporation, a corporation owned by the government of the United Kingdom.

It should also be recorded as part of the ownership picture that Canadian Pacific Investments Ltd. (CPI) through its control of Algoma has effective indirect control of MRM. CPI through its control of Cominco, Limited controls in turn the small steelmaker, Western Canada Steel Limited. As stated in Chapter 10, the Inquiry concluded on the evidence gathered by it, that these facts of ownership played no part in the pricing procedures of MRM which is the only apparent area of market overlap between these three steelmaking facilities.

5.3 Industry Statistics

In the search for a consistent set of statistics to describe the Canadian steel industry, the Inquiry encountered considerable confusion, duplication and even inconsistency. The industry statistics used in this report are generally based on compilations made by the Mineral Resources Branch of the Ministry of Energy, Mines and Resources from original data supplied by Statistics Canada and verified by the staff of the Inquiry. In some instances, the Inquiry found it necessary to make its own compilations because information published by government agencies was either incomplete, out-of-date, or compiled for other purposes and therefore not adaptable to the requirements of this Inquiry.

The following table summarizes the raw steel capacity reported to be available during 1974 by these 11 companies:

TABLE 4
Raw Steel Capacity – 1974
(000 tons)

Stelco.....	6,045
Dofasco.....	3,200
Algoma.....	2,800
Sysco.....	1,000
Sidbec.....	1,000
Ipsco.....	600
Lasco.....	330
Burlington Steel.....	240
Manitoba Rolling Mills....	197
Western Canada Steel.....	170
Atlas Steels.....	84
Total	<u>15,666</u>

SOURCE: Compiled by the Steel Profits Inquiry from information supplied by the companies.

According to estimates supplied to the Inquiry, these companies intend to increase their raw steel production capacity from the 15.7 million tons shown above for 1974, to a total exceeding 22 million tons by 1980.

In Appendices "L" to "N" we have summarized the key production and shipment statistics for the primary iron and steel industry from 1961 to 1973. These statistics point to a relatively high rate of growth for steel, compared to other national economic indicators. Raw steel output increased from 6,376,000 tons in 1961 to 14,549,000 tons in 1973, an increase of 8.2 million tons or 128 percent. Rolling mill products shipped by the Canadian industry increased from 4,604,000 tons in 1961 to 10,936,000 tons in 1973. This was an increase of more than 6.3 million tons or 138 percent. These figures compare with an increase of 93 percent in the Canadian real Gross National Product, and 115 percent in the Index of Industrial Production during the same time period.

5.4 Canadian Tariff Rates

Appendix "O" shows the Canadian tariff rates presently applicable to imported primary iron and steel products. From the schedule, it can be seen that rates currently are generally 10 to 15 percent *ad valorem* under the Most Favoured Nation schedule, and 5 to 10 percent under the British Preferential schedule. Custom tariffs on imported steel are currently of relatively minor importance because of the high price of foreign steel. In other times and conditions this subject might well take on greater significance.

5.5 Performance of the Canadian Steel Industry

Submissions to the Inquiry and independent research conducted by the Inquiry's staff were in agreement that the performance of the Canadian steel industry measured against the background of the Canadian economy and world steel trends shows the following characteristics:

- A. The Canadian steel industry has tended to respond and adapt to the latest technological developments at a comparatively rapid pace. This has already been illustrated by the early lead taken in investing in basic oxygen steelmaking facilities. Other examples include advances in blast furnace technology, the introduction of continuous casting operations and the adoption of direct iron ore reduction processes to reduce the dependence of the electric furnace operation on scrap metal.
- B. As a result of continuing large programmes of capital investment, particularly since the mid-1950's, the industry has not only accommodated the growing demand for steel in Canadian markets, but also gradually reduced the relative importance of imports in the Canadian market.

The Canadian steel industry has followed an expansion path that leaves to imports the roles of providing the peak cyclical requirements of the Canadian market and of supplying those steel products for which the Canadian demand has been too small to permit economical production runs. As a result, the ratio of capacity utiliza-

tion by the Canadian industry has tended to be higher than that of its U.S. and overseas competitors, a factor which is often cited as a favourable element in the productivity and financial performance of the industry. The following table shows the weighted rate of raw steel capacity utilization of the Big Three steel companies from 1963-1973.

TABLE 5
**Weighted Rate of Raw Steel Capacity Utilization
Stelco, Dofasco and Algoma – 1963-1973**

	<u>Percent</u>
1963.....	102.8
1964.....	103.2
1965.....	100.3
1966.....	93.4
1967.....	86.4
1968.....	92.4
1969 ^(a)	78.5
1970.....	98.1
1971.....	95.5
1972.....	93.8
1973.....	99.9

(a) Major strike.

SOURCE: Information supplied by Stelco, Dofasco and Algoma.

C. The Canadian steel industry has also achieved relatively large productivity increases. The statistics in this area must be interpreted with caution. A Statistics Canada study shows that output per production worker man-hour paid in the steel industry rose at an annual rate of 4.0 percent in Canada between 1947 and 1967, compared to 2.2 percent in the United States.^(b)

The United States Bureau of Labor Statistics calculates a comparable productivity factor for the U.S. industry from 1957 to 1973 at an annual rate of 2.3 percent.

D. Finally, and probably most important from the viewpoint of this Inquiry, we have verified the testimony that Canadian steel prices have fallen below corresponding United States steel prices during the last ten years. This evidence also shows that under current world steel market conditions, Canadian prices have also been lower than those quoted by major offshore steel industries.

(b) Statistics Canada, *Productivity Trends in Industry*, Report No. 2, Iron and Steel Mills, February 1970, Table 3, page 17.

Steel Pricing and Prices

6.1 *Factors Determining the Price of Steel*

The following factors determine the total cost of steel to a user at a given location in Canada:

BASE PRICE

A base price quotation shows the price at which a steel mill sells f.o.b. mill at its production point. These are prices for broad product groups such as bars, sheet, plate and structurals. Appendix "P" shows a history of these prices compiled by the Prices and Incomes Commission for selected years from 1955 to 1970, and updated for this Inquiry by Stelco and Algoma. It should be noted that at the time of writing this report a number of differences exist in the base prices quoted by individual Canadian steel mills.

EXTRAS

Additional charges are made above the base price for size, quantity and quality variants. These "extras" are added to the base price to arrive at the net price for a specified product.

FREIGHT

Freight costs are generally not included in the above prices and can be a significant component in the total cost of steel to a customer. Under normal conditions the delivered price of steel at a given location will be governed by net price plus freight costs from the nearest producing mill.

SCRAP SURCHARGE

The electric furnace steelmakers have since late in 1973 established at different times a surcharge which has fluctuated with the price of scrap and was designed to recover the extraordinary cost increases of scrap metal to these producers.

The industry frequently follows the price leadership of Stelco which produces more than 40 percent of Canada's steel. Since steel is a material of universal quality, total cost to a steel user at a given location will have to be the same regardless of source under normal market conditions. For example, to be competitive with Stelco in Toronto, Algoma has to absorb the difference in freight costs between Sault Ste. Marie and Toronto, and Hamilton and Toronto; the same applies to all Algoma customers where the freight from Algoma to the customer exceeds the freight from Stelco to the customer.

The electric furnace companies operate in somewhat the same fashion as the three major producers. Except in times of extreme scarcity they adopt

the Stelco or Algoma base price, depending upon their geographical location, and add on the freight from Hamilton or Sault Ste. Marie to their customer to determine their laid-down price quotation. This practice is subject to many variances particularly in times of scarcity of steel. Ipsco, for example, charges as its base price the Algoma base price plus freight from Sault Ste. Marie to Regina, so that Regina becomes the base point. The Ipsco customer then pays this base price plus freight from Regina to the customer, even though the customer may be located east of Regina. This is the current practice when steel is in short supply.

In drawing attention to the presence of the base point pricing practices, this report should not be understood as condemning as inherently wrong such a practice or as implying a need for corrective legislative measures. This is a matter not directly in the path of this Inquiry as directed by the constituting Order in Council and is of such complexity and importance to the industry and commerce of Canada generally as to require its own separate study and consideration by an appropriate authority before any rational conclusion can be reached.

6.2 Price Leadership

In analyzing steel price behaviour, the Inquiry found evidence of strong price leadership in the Canadian industry, which is not surprising, in view of the fact that the Big Three steel companies have a dominant position in the Canadian market place. That is not to say or imply, that competition is not real and effective amongst the three majors, this matter being entirely beyond the scope and examination of this Inquiry. Our analysis of current and previous rounds of price increases indicates that each of the Big Three steel companies has at times led the market with price changes for individual rolling mill products, with a tendency for the other companies to follow these moves in approximately parallel fashion.

It should also be noted that base price divergencies have now appeared in the Canadian steel market, some of which may be a temporary response to the fact of this Inquiry. These divergencies appeared when Stelco did not match Dofasco's and Algoma's September 1974 increases of prices for hot and cold rolled sheet and strip. We also have observed that Dofasco in September rolled back a price increase made in August (on electrolytic tin plate) because Stelco did not follow with a similar price increase.

As part of its price analysis, the Inquiry sought to determine whether there was any relationship between the pattern of the steel price increases in recent years, and the degree of competition among various product lines, particularly among the Big Three steel companies. Our analysis showed that price changes tend to occur in distinct cycles for individual products, without reference to the producer's share of the market in that product. Generally, the 1974 price increases have not been made on the entire product structure of a producer at a single point in time. For example, during the life of the Inquiry, the initial price increases were concentrated in the bar, structural and plate categories, eventually spreading through the hot and cold rolled flat product categories by the end of the summer of 1974.

So long as the steel producers do not establish their prices and price practices by agreement expressed or implied, there would appear to be no involvement with present Federal restraint of trade legislation. It might be of interest to note in passing that in the United States the adoption of the competitor's price catalogue, coupled with a technique of freight added from the competitor's base point, has been found to be a violation of legislation relating to unfair competition. A short discussion of price practices such as "conscious parallelism" and base point pricing appears in Appendix "Q".

6.3 Canadian Steel Prices and General Price Trends in the Canadian Economy

Before going into the details of Canadian steel price trends, it is useful to briefly analyze the Canadian steel industry price performance compared to general price trends in the Canadian economy. All the major official price indexes are on a 1961 base, and viewed in the entire time span from 1961 to date, it can be said that there is little to choose between the trend in Canadian steel prices and aggregate price movements in the rest of the economy. This relationship may be examined by the following illustrations:

The industry selling price index for iron and steel mills in Canada rose by 73.9 percent from its 1961 base to August 1974, compared to:

- A. A slightly faster rise of 75.7 percent for the overall index of industry selling prices from 1961 to August 1974. This index summarizes the movements of the prices of a large number of manufacturing industries;
- B. A 73.5 percent rise in the implicit price index for Gross National Expenditure in Canada from the 1961 base to the second quarter of 1974; and
- C. A 69.6 percent rise in the Consumer Price Index for Canada from 1961 to August 1974.

It should be pointed out that the bulk of the steel price index rises involved in this comparison have taken place during the recent sharp breakout of inflationary forces. For example, from 1961 to 1971 the industry selling price index for iron and steel mills had risen by only 18.0 percent, compared to increases of:

- A. 21.6 percent for the selling price index for all industries;
- B. 37.8 percent for the implicit price index for Gross National Expenditure; and
- C. 33.4 percent for the Consumer Price Index.

In the course of the Inquiry, it was contended on several occasions that changes in the price of steel do not tend to have a significant impact on the general course of inflation, particularly because the cost of steel tends to be a relatively small component in the prices of most finished products. In Chapter 4 we discussed the pervasive importance of steel as a basic material, and hence the pervasiveness of the costs of steel. This brings us to the next question, namely the magnitude of the impact of an increase in the cost of steel on cost levels generally. Using the Statistics Canada 1966 input-output

tables for the Canadian economy, the Inquiry confirmed that the direct impact of a price change in steel rolling mill products on other price indexes is indeed small. For example, a 10 percent rise in domestic steel prices produces a rise of about 0.1 percent in the Consumer Price Index, between 0.3 and 0.4 percent in machinery and equipment price indexes, and between 0.4 and 0.7 percent in construction price indexes. These calculations support rather than negate our observations in Section 4.1 of Chapter 4. The results of any particular analysis will, of course, vary according to the importance of steel by weight in the test product.

6.4 Analysis of Canadian Steel Price Changes and International Price Comparisons

As mentioned earlier, the price performance of the Canadian steel industry scores high by comparison with the United States and overseas steel producers. Appendix "P" summarizes the long term trend in the quoted base prices for major rolling mill products produced in Canada and the United States since 1955. Historical data were published by the Prices and Incomes Commission and have been updated for the Inquiry by Stelco and Algoma. Starting from a position of relatively minor price differentials in the early 1960's (by which time, incidentally, the historical fact of higher Canadian than U.S. base prices had been virtually eliminated, partly as the result of the decline in the exchange rate for the Canadian dollar), there has emerged a significant spread between Canadian and U.S. base price quotations, with Canadian prices now significantly lower.

Table 6 (calculated from Appendix "P") below examines the trend in Canadian-U.S. base price differentials for seven major categories of rolling mill products from 1955 to date. Reaching rather far back into history, it can be seen that Canadian steel base prices exceeded those of the United States for most products until 1959, but that by 1963, U.S. base prices exceeded the Canadian prices for all of the products shown. Since that time there have only been a few isolated instances when Canadian base prices temporarily exceeded those of the United States.

By 1970, Canadian base prices were generally between 10 and 16 percent lower than those prevailing in the United States (with the exception of tin plate sheets with a differential of less than 5 percent). During the 1970's, relative movements became somewhat erratic, particularly after the United States imposed various types of controls beginning in the fall of 1971. By 1 January, 1974 the price spreads had become considerably narrower with four of the products showing Canadian base prices that were then between 2½ and 7½ percent lower than their U.S. counterparts. Two other products showed Canadian prices lower by 11 and 16 percent, while for merchant bars, the Canadian base price was actually 2 percent higher than the U.S. base price.

The relatively larger U.S. price increases during 1974 have again restored a much larger range of Canadian-U.S. differentials. By July of this year, all Canadian base prices were again substantially lower than comparable U.S. prices, ranging from 26 percent in the case of cold rolled sheets and galvanized sheets to 7 percent for merchant bars.

TABLE 6

Price Differentials between Canadian and U.S.
Rolling Mill Products' Base Prices

January 1, 1955, 1959, 1963 and 1966 to 1974; June, July and October 1974
Canadian Dollars Per Ton and Ratio of Canadian to U.S. Prices

	1955	1959	1963	1966	1967	1968	1969	1970	1971	1972	1973	1974	June 1974	July 1974	Oct. 1974
Structural Steel Shapes, Carbon															
Dollars Per Ton...	(9.80)*	(4.00)*	8.00	7.60	7.80	7.40	14.00	14.00	5.80	22.20	20.80	4.60	8.20	27.60	41.20
Ratio of Canadian to U.S. Base Price.	111.9	103.8	93.2	93.8	93.8	94.1	89.5	90.1	95.9	86.4	87.8	97.3	95.7	86.8	81.5
Steel Plate, Carbon															
Dollars Per Ton...	(18.80)*	(6.80)*	4.80	10.40	11.40	15.20	21.80	21.80	13.80	33.20	31.80	11.60	4.40	40.20	54.00
Ratio of Canadian to U.S. Base Price.	123.4	106.7	95.8	91.3	90.5	87.8	83.3	84.3	90.0	79.8	81.3	93.1	97.6	81.7	76.8
Hot Rolled Sheets, Carbon															
Dollars Per Ton...	(8.80)*	(0.60)*	10.40	11.00	11.20	10.80	5.60	18.40	28.00	37.20	28.80	27.20	26.60	54.60	58.20
Ratio of Canadian to U.S. Base Price.	111.3	100.6	90.5	90.4	90.5	90.8	95.0	86.1	81.1	77.3	82.3	83.8	85.3	73.8	72.6
Cold Rolled Sheets, Carbon															
Dollars Per Ton...	(14.40)*	(5.80)*	7.80	8.40	8.80	13.80	18.40	19.60	16.20	14.20	20.40	14.40	14.60	47.60	66.60
Ratio of Canadian to U.S. Base Price.	115.1	104.8	94.2	94.0	93.9	90.8	88.1	88.0	90.3	91.8	89.1	92.4	92.9	80.0	74.0
Merchant Bars, Carbon															
Dollars Per Ton...	(9.00)*	1.60	14.00	14.40	14.40	17.40	22.80	19.80	14.60	29.20	20.40	(2.80)*	(7.60)*	14.60	n/a
Ratio of Canadian to U.S. Base Price.	110.8	98.5	88.5	88.7	88.7	86.7	83.2	86.2	89.9	82.4	87.8	101.7	104.1	93.0	
Galvanized Sheets (1.25 Oz.)															
Dollars Per Ton...	(16.80)*	(1.20)*	13.60	23.80	23.20	28.20	31.20	27.60	32.60	39.00	29.40	22.00	26.00	70.00	88.20
Ratio of Canadian to U.S. Base Price.	116.0	100.9	90.8	85.3	85.8	83.2	81.8	84.4	82.7	80.6	85.3	89.2	88.4	74.0	69.5
Tin Plate Sheets															
Dollars Per Ton...	(18.60)*	0.20	12.00	10.60	12.20	10.00	8.60	8.20	11.60	13.60	(1.80)*	5.20	21.60	21.60	29.80
Ratio of Canadian to U.S. Base Price.	114.6	99.9	93.2	94.2	93.3	94.7	95.4	95.6	94.2	93.6	100.9	97.6	91.7	91.7	89.9

(*) Indicates Canadian base price exceeding U.S. base price. All other dollar figures show U.S. base price exceeding Canadian base price.

n/a—not available.

SOURCE: Computed from Appendix "P".

By October 1974, these differentials had widened further, ranging between 10 and 30 percent for five of the products for which comparisons could be made between Stelco's base price at Hamilton and the U.S. Pittsburgh, Pa. base price. Similarly, Algoma's base price for carbon structural steel shapes at Sault Ste. Marie was 18.5 percent below the corresponding Pittsburgh price.

From the viewpoint of an individual Canadian steel user, the price spread between U.S. and Canadian steel would be much larger than is indicated by a comparison of base prices. In addition to the tariff, additional freight costs would be involved. From a practical viewpoint United States steel is not competitive under normal circumstances in Canadian markets. Imports have a presence only in product lines which are not rolled by the Canadian mills, or under conditions of shortage.

It has been emphasized to this Inquiry that this divergence between Canadian and U.S. steel prices, with Canadian prices being substantially lower, is a rare phenomenon in any comparison of prices of manufactured goods between the two countries.

Table 7 shows a special compilation made by the Inquiry comparing October 1974 base prices for 9 specified rolling mill products (all of which are purchased regularly and in volume), as quoted by Stelco at Hamilton, Ontario; United States Steel Corporation at Pittsburgh, Pa.; and August Thyssen-Hütte, A.G., Duisburg-Hamborn, West Germany. As can be seen from these quotations, Stelco's Hamilton base prices are lower than those quoted by the foreign steel companies, with the single exception of hot rolled carbon steel bars, where the Thyssen quotation was lower.

We have made considerable effort to add the Japanese domestic price to the above table but have been unable to obtain information on Japanese domestic steel prices which is understandable and authoritative. It is clear, however, that these prices are above the Canadian prices quoted in Table 7.

Over the long run, both Japanese and European steel prices have tended to be highly volatile, providing significant price pressure on the Canadian market during the late 1960's, when there were widespread surpluses in world steel capacity. Currently, the situation is entirely different. Compilations made for the Inquiry from import data supplied by Statistics Canada show that prices of offshore steel imports have risen much more rapidly than Canadian steel prices. This condition has continued through the summer of 1974, with imported steel from various offshore suppliers continuing to command much higher prices in the Canadian market than the corresponding delivered prices of Canadian producers. While this is a volatile and unstable situation, it points to the fact that particularly during the recently prevailing steel shortages and inflationary conditions, Canadian steel consumers have substantially benefitted from a lower level and more stable pattern of Canadian steel prices. In the circumstances, we were also impressed by the fact that Canadian steel exports have not increased in volume at a time when they would have easily commanded substantially higher prices than those obtained on domestic shipments.

TABLE 7

**Comparison of Canadian, U.S. and
West German Base Prices for Selected Steel Products October 1974
f.o.b. producing mill**

<u>Description</u>	<u>Prices in Canadian Dollars Per Net Ton</u>		
	<u>Stelco Hamilton, Ontario</u>	<u>U.S. Steel Pittsburgh, Pennsylvania</u>	<u>August Thyssen Hütte, A.G. Duisburg-Hamborn</u>
Finished steel subproduct class			
Plate, carbon steel, grade C 1/2" x 84" x 240" ASTM, spec. A-285, PVQ, base length, base quantity 20,000 lbs. and over, mill to user, f.o.b. mill.....	\$201(a)	\$227	\$239
Structural steel shapes, carbon steel, 6" x 4" x 1/2" angles, 35' x 40' long, ASTM spec. A-36, base quantity, 10,000 lbs. or over, mill to user, f.o.b. mill.....	\$199(b)	\$216	\$223
Bars, hot rolled, carbon steel, 1 1/2" rounds x 16/20' long, spec. AISI-1030, special qual- ity base quantity, 40,000 lbs. and over, mill to user, f.o.b. mill.....	\$229	\$232	\$221
Bars, reinforcing, carbon steel, No. 6 x 60' long with 10% shorts, spec. ASTM A-15, 62T, or ASTM A-615, grade 40, base quantity, 40,000 lbs. and over, mill to user, f.o.b. mill.....	\$203	\$215	\$257
Sheets, hot rolled, carbon steel, .1271 minimum (TMW) 48" wide x 120" long, cut edge, not pickled, cut lengths, base chemistry, commercial quality, base quantity, 40,000 lbs. or over of an item, mill to user, f.o.b. mill.....	\$176	\$220	\$245
Sheets, cold rolled, carbon steel, .0344" minimum (TMW) 42" wide x coil (200 lbs./inch			

TABLE 7

Comparison of Canadian, U.S. and West German Base Prices
(Continued)

<u>Description</u>	<u>Prices in Canadian Dollars Per Net Ton</u>		
	<u>Stelco Hamilton, Ontario</u>	<u>U.S. Steel Pittsburgh, Pennsylvania</u>	<u>August Thyssen Hütte, A.G. Duisburg-Hamborn</u>
or width or over), base chemistry, commercial quality, bare (unwrapped) wired or banded, without skids or platform, base quantity, 40,000 lbs. or over of an item, mill to user, f.o.b. mill.....	\$200	\$260	\$269
Sheets, galvanized, flat, carbon steel, .0262" minimum (TMW) x 30" wide x 96" long, commercial coating, (standard 1¼ oz.), commercial quality, bare (unwrapped) wired or banded, base quantity 40,000 lbs. or over of an item, mill to user, f.o.b. mill.....	\$281(c)	\$281	\$283
Strip, cold rolled, carbon steel, coils, No. 4 temper, No. 2 finish, No. 3 edge, base chemistry, 6" x .050", in quantities of 10,000 to 19,999 lbs., mill to user, f.o.b. mill.....	\$240(d)	\$323	N/A
Pipe, standard, black, carbon steel, buttweld threaded and coupled, 1¼" lengths of 21 ft. plus or minus 1", weight 228 lbs. per 100 ft., carload lots, mill to jobbers' or distributors' stock, f.o.b. mill....	\$595(e)	\$753	N/A

(a) Plate – Specification "ASTM, A-285 Flange, Grade C" is obsolete. The current most closely similar grade is "ASTM, A-285-72 Grade C Pressure Vessel Quality", which Stelco has quoted.

(b) Algoma quotation f.o.b. Sault Ste. Marie.

(c) The gauge quoted is .030. Charges are based on "scale weight" *not* theoretical mill weight (TMW).

(d) Base quantity is 30,000 lbs. to which the quoted price applies.

(e) Standard length is 22 ft. to which the quoted price applies.

SOURCE: Information compiled by the Steel Profits Inquiry.

World Influences

As a net importer of steel, and representing a small percentage of the world steel market, Canada is susceptible to the influence of the world steel trade. Eastern Canadian and British Columbia steel markets are more directly influenced by fluctuations in world supply and demand for steel, but most of the interior of the country is penetrated by foreign steelmakers in varying degrees, depending upon the state of the world markets.

7.1 World Steel Situation

Evidence submitted to the Inquiry indicated that steel markets in most of the industrialized Western countries during 1973 and 1974 were characterized by a substantial excess of demand relative to available production facilities. These shortages had arisen because of a rapid acceleration in world economic growth between 1971 and 1973, and a maintenance of high levels of steel demand in the face of slowdowns in the economy of many countries during 1974. Although the immediate world economic outlook is hazy, submissions to the Inquiry generally emphasized that large volumes of new steel capacity would be required to meet world demand by the end of the decade. It has recently been estimated that world steelmaking capacity must rise from about 835 million tons in 1974 to 1.1 billion tons per annum by 1980. To do this it is estimated that it will be necessary to install about 550 million tons of new steelmaking facilities. This will create the additional capacity required by 1980 and replace obsolete capacity presently in existence.^(a) Should this and other similar forecasts prove as reliable as in past years, it is unlikely Canada will be able to look outside its boundaries for a supply of steel at lower prices and greater security of delivery than it could obtain from its domestic steel industry, providing that the industry is capable of supplying Canada's increasing needs.

In absolute terms, Canada occupies a relatively modest position in this world perspective. As mentioned in Chapter 5, our raw steel output amounted to 14.55 million tons during 1973 which placed Canada eleventh in size among the world's steel producers, with a 2 percent share of total output. Still the Canadian performance is impressive, since the ten largest producers are mostly countries with much larger populations and higher levels of total output than Canada.

7.2 Performance of the U.S. Steel Industry

A recurring theme in the international comparisons made before the Inquiry was the less satisfactory long-term performance of the United States

(a) W. T. Hogan, S.J., "World Steel: The Staggering Need for Investment", *Center Lines*, Vol. IX, May 1974, published by Steel Service Center Institute.

steel industry compared with its Canadian counterpart with regard to increasing capacity, to the modernization of plant and to the price of its product. Because new installed capacity would necessarily involve newer steelmaking technology than exists in many of the United States mills, expansion to meet domestic needs would at the same time contribute to a relatively lower cost of steel and hence lower prices.

Since World War II there have been a number of instances of intervention by the United States government in the affairs of the steel industry in that country. An attempt has been made to determine whether such intervention or other legal developments in the United States were of relevance to the problems under consideration by this Inquiry. Whether or not there be a demonstrable link between the successive actions by the executive branch of the United States government with reference to the steel industry, it is clear a national state of mind was developed on the importance of steel in the United States and its place in the United States economy.

The first of the events to which reference is made was the action of President Truman in 1952 when he executed his Executive Order purporting to seize the steelmills of the country. This intervention was prompted by a prospective strike in the industry which the administration deemed detrimental to the public interest. This seizure was subsequently held by the Supreme Court of the United States to be constitutionally invalid. During the regime of President Eisenhower no similar dramatic government intervention occurred but the industry was subjected to scrutiny by the Subcommittee on Anti-Trust and Monopoly of the Senate Judiciary Committee concerned chiefly with prices and pricing policies.

In the early 1960's occurred the celebrated exchange between President Kennedy and Roger Blough, Chairman of the United States Steel Corporation concerning an increase in steel prices. Following this exchange there was a significant amount of activity in the way of anti-trust hearings and investigations by various administrative agencies. President Johnson continued the government involvement with the steel industry, concerning himself particularly with the settlement of labour contracts and surveillance of prices. Under President Nixon price controls affecting steel, as well as the general price structure, were introduced in August 1971, which controls were discontinued in April 1974. (These developments were the subject of a special study undertaken for this Inquiry by Professor Frank Iacobucci, which study, by reason of its length, has only been summarized in this Chapter.)

The following explanations were given to the Inquiry for the performance of the United States steel industry as compared to the Canadian steel industry.

- A. A confrontation and adversary position gradually emerged between the United States government and the steel industry during the post-war period. As a consequence, it is said, steel pricing decisions were hindered, profitability lowered, and the investment commitments dampened. It is also contended that the very recent relatively sharp rises in steel corporation profits are now providing the financial base on which needed new capacity commitments can be built.

- B. The steel industry may have also been late in its initial response to major technological changes during the postwar period including the installation of basic oxygen furnaces. Basic oxygen furnaces were not introduced to the large plants because in their early form this type of furnace was only adaptable to smaller production units. Reluctance to establish scaled-up oxygen furnaces faded only after the initial installations were demonstrated successes. There is evidence now that the United States industry's new commitments are rapidly catching up and eliminating this lag.

7.3 The Japanese, ECSC and U.K. Steel Industries

The Inquiry did not conduct a separate study of the steel industries in the major overseas industrial countries, and for this reason our comments on this subject will be brief.

With considerable assistance and cooperation from government, the Japanese steel industry has chalked up a tremendous growth performance in the last twenty years. Raw steel production of 131.5 million tons in 1973 ranked Japan third in the world, exceeded only by the United States with 150.4 million tons, and the U.S.S.R. with 144.4 million tons. Approximately 80 per cent of raw steel production is in basic oxygen furnaces. Many of the new Japanese mills have been built on seaboard facilities, which offer cost advantages in handling the huge volume of imported raw materials, and the industry's large exports.

The Japanese steel industry will, over the long run, have to cope with the competitive impact of the revaluation of the yen, the sharply rising cost of imported raw materials, energy supply constraints, and the cost of meeting environmental problems.

The six original members of the European Economic Community, operating as the European Coal and Steel Community (ECSC) since 1951, are usually grouped as a bloc in steel industry analysis, and these steel industries have also grown rapidly since the 1950's. Their combined raw steel output amounted to 137.0 million tons in 1973, with West Germany producing 54.6 million tons, France 29.4 million tons, Italy 23.2 million tons, Belgium 17.1 million tons, Luxembourg 6.5 million tons and the Netherlands 6.2 million tons. The ECSC industry has been characterized by heavy government involvement and industry cooperation. The ECSC governments offer various cost-reducing subsidies, and special tax incentives to stimulate exports. Because of the tight supply conditions, steel trade in the current cycle has been largely among members of the ECSC, with constraints on exports to third countries.

By contrast, the U.K. steel industry has shown the lowest growth rate of any of the major steel industries in the world, even though its raw steel output of 29.4 million tons in 1973 still ranked as the world's fifth largest. The industry is not generally recognized as an efficient producer since much of its capacity is old, obsolete and small scale in operation. The U.K. industry is dominated by the government-owned British Steel Corporation.

7.4 General Conclusions

As was seen in Table 7 on page 37 above, the price of Canadian primary steel products was significantly lower than prices prevailing in West Germany, and the United States. While the same comparison has not been fully documented for other countries in this report, it can be said that the price of primary steel products in no other Western industrialized nation is lower than in Canada.

While international comparisons are difficult, we obtained the impression that three general factors help to explain the favourable Canadian steel industry performance. First, productivity gains have been larger in Canada, attributable to a significant degree to continuing high levels of new capital investment. Second, the Canadian industry's capacity has generally been built slightly behind rising levels of Canadian consumption requirements enabling a high production to capacity ratio, with imports providing peak cyclical requirements or the supply of product lines where the volume of Canadian demand is too low to be profitable. Third, the Canadian industry has to contend with much less obsolete plant.

Recent changes in exchange rates, costs and prices will be making a significant impact on world steel trade. The relatively stable system of fixed exchange rate arrangements that dominated the world for more than 25 years after the end of World War II came to an end in 1971. The appreciation of the Japanese yen, the German mark and the currencies of a number of other European continental steel producers may have important competitive implications, as world demand pressures moderate. The principal raw materials used to produce steel are international commodities in the sense that they are priced for international markets. This is true of iron ore and coal, and Canada is in no way insulated from world influences on the cost of these basic ingredients.

Analysis of Profit Margins of the Three Major Integrated Steelmakers

8.1 General Profit Margin Considerations

Before dealing specifically with profit margins in the “Big Three”, it will be helpful to examine profit margins as they apply generally to all eleven steelmakers.

As mentioned in Chapter 3, the Inquiry has adopted a meaning for “profit margins” that allows a flexible examination of revenue and costs so that a realistic result for each of these varied steelmaking organizations can be established. A profit margin is not an abstract quantity to be measured as an intellectual exercise for accountants, economists and statisticians, but is the lifeblood of any economic system whose productivity, material wellbeing and work opportunities are founded on expanding enterprises engaged in supplying the community’s physical requirements. When the term is applied to a capital intensive industry, and steel is certainly one of the most intensively capitalized of all, one must include a programme for the replacement of obsolete equipment, worn machinery and plant, and for the expansion of capacity as the community and its steel appetite grows. For that reason, it was not considered appropriate to adopt as the sole definition of “profit margins”, that found in Bill C-29 as introduced in Parliament in the spring of 1974, suitable though such a definition may be for a service industry and other undertakings where plant and equipment are not of the staggering proportions as in steel. Indeed, the submissions by the three majors stressed that any measure of the magnitude of their profit margins must include a capital component. Thus a profit margin so calculated would have to be of the magnitude of 10 to 12 percent expressed as a return on investment to be satisfactory.

We have applied several different methods of computing profit margins and for measuring their adequacy or magnitude. As will be discussed in accounting details shortly, gross profit margins have been calculated before depreciation, administrative and selling expenses, interest on long-term debt, investment income, indirect overhead and other expenses not ordinarily allocated to specific products or segments of the enterprise. This approach is employed in testing profit margins realized on individual product items to determine whether the steelmaker is achieving a return greater than customary on that product item; and to determine whether prices have been increased more heavily on certain products, than on others where competitive conditions would not permit. Thereafter the calculation is carried through to pre- and post-tax stages over a span of fiscal periods including quarterly periods in 1974 so as to construct a record of net income expressed as a percentage of sales revenue, as a percentage of shareholders’ equity (paid-in common share capital and

retained earnings, referred to as return on equity or ROE) and as a percentage of investment (assets less current liabilities, referred to as return on investment or ROI).

In determining the steel industry's historic profit margins or an individual enterprise's historic profit margins, allowances must be made for the distortions caused by strikes, plant rebuilding and other isolable events. In some circumstances it may be found to be more realistic to select a median period in a fiscal sequence of gyrating net incomes. In other cases a range of historic profit margins should be selected so as to ascertain whether current profit margins are greater than customary. All of this is here expressed in generality and remains to be applied in greater accounting detail later in this Chapter.

One or two specific items remain to be resolved in determining and comparing usual or customary profit margins. As will be seen, some steelmakers are vertically integrated from the iron mine through the mining and assembly of such steelmaking ingredients as coal and limestone, to the production of pig iron and thereafter steel, to the rolling of the steel into primary products, the production of secondary products and finally the marketing of the output. Other companies undertake little or no mining operations, produce only raw steel, operate unrelated or related enterprises, produce a limited range of primary products or produce no pig iron but make steel entirely out of scrap. All combinations of these stages and practices occur in the Canadian steel industry. We are not therefore studying and comparing a row of identical steel-making establishments in assessing the impact of price increases and pricing policies generally.

As will be seen, the eleven principal steelmakers can be divided into three main categories. Firstly there are three vertically integrated steelmakers, Stelco, Dofasco and Algoma, forming the first group. Secondly there are six electric furnace based enterprises producing steel from scrap steel, both purchased and internally generated. This group is made up of Lake Ontario Steel Company Limited, Interprovincial Steel and Pipe Corporation Ltd., The Atlas Steels division of Rio Algom Mines Limited, The Burlington Steel division of Slater Steel Industries Limited, The Manitoba Rolling Mills division of Dominion Bridge Company, Limited, and Western Canada Steel Limited. The third is a residual group consisting of two provincially-owned companies, one of which, Sidbec-Dosco Limitée is an electric furnace facility fed by a mixture of sponge iron pellets, produced in its gas reduction facilities from iron ore, and steel scrap. The other enterprise, Sydney Steel Corporation, produces steel from iron ore but largely in a semi-processed state. In a sense each of these two companies is a vertically integrated operation with Sysco more closely resembling steel producers of the first group and Sidbec steel producers of the second group. Within each of these three groups basic differences and significant variation in industrial organization or configuration appear. In group one, for example, one of the vertically integrated producers purchases no scrap, while the others purchase significant quantities; one is largely self-sufficient in coal, whereas another purchases coal largely on the open market under a variety of arrangements. Fortunately these variations in accounting and industrial practices do not significantly affect profit margin calculations, but for accuracy in

describing the individual practices and results, one must appreciate the existence of these differences.

The scrap-based electric furnace steel producers present another problem in comparing profit margins, both inside and outside their group. Scrap costs have moved up sharply in the fiscal periods we have scrutinized. The electric furnace group generally seeks to serve regional markets which behave differently sometimes than the national market. This branch of the industry is less capital intensive than the integrated operators as they do not require blast furnaces and related support facilities and none of them is engaged in mining operations. The electricians in their operations and profits must therefore be examined differently than the integrated steelmakers and tests applied to their respective profit margins are somewhat varied, as will be observed.

8.1.1 The Market Analyst Approach

The entire approach to the measurement of profit margins, their adequacy or otherwise, was undertaken from quite another viewpoint by a group of steel industry investment analysts within the Canadian investment community. This careful and helpful submission was presented to the Inquiry in the form of a very comprehensive brief and assembled data.^(a) In this submission the profit margin of each of the three major Canadian producers was dealt with in terms of operating profit margin, pre-tax profit margin and net profit margin. Despite improvement in the past two years it was pointed out that none had been successful in attaining the levels of profit margin on any of these bases which they had enjoyed in the mid 1960's. Next the submission considered the profits relative to investment dealing with stockholders' equity, invested capital and total invested capital. Similar conclusions were reached. The submission further considered profits relative to assets in terms of gross fixed assets, net fixed assets and total assets. Once again, similar conclusions were reached. The submission also considered profits relative to shipments and profits relative to employment.

The burden of the submission relative to profit trends was firstly, that no single method of measuring profitability is adequate in isolation, and secondly, that by the standards of the past fifteen years little or no appreciable net improvement in the steel companies' profitability, however measured, could be established.

This submission included an interesting review of the return to shareholders of these three companies over the past fifteen years. The conclusion put forward by this portion of the submission is that an investor in stocks of these companies over the period reviewed would have had little better return than an investor in Canada Savings Bonds who was exposed to no risk whatsoever and enjoyed complete liquidity throughout the entire term of the investment.

(a) A summary of the brief with excerpts from the supporting data is incorporated herewith as Appendix "R". The Inquiry is indebted to Donald Anderson, Walter Ellison, C. Terry Fisher, Marshall Miller, Gerry Reid, William Sumpton and Charles Winograd for the presentation of this material.

The investment approach taken by these industrial market analysts represents one more angle of examination or approach to the steel industry and its profit margins. By itself this kind of analysis may not be decisive with reference to the precise questions put by the Order in Council, but it brings to these questions and their answers an overview by which the general direction of the answers can be tested.

8.2 The Major Integrated Steelmakers – Stelco, Algoma, Dofasco

As has been stated, three companies, Stelco, Algoma and Dofasco, account for upward of 80% of raw steel production in Canada. These companies are vertically integrated producers operating from iron, coal and limestone mining in varying degrees through the production of pig iron, raw steel, primary iron and steel products and secondary steel products. This Inquiry is concerned only to the stage where primary iron and steel products are produced. The accounting records and procedures of each of these producers, sometimes referred to as the Big Three, are different and this Inquiry has not, for a variety of reasons including the expense and inconvenience occasioned to the companies, required a compilation of accounting data on a precisely common basis. In order to assess the position of each of these companies as a result of the price increases described later in this Chapter, the accounting information of each has been examined and the results of these examinations are now set out company-by-company, along with a discussion of each company as an operational unit. However, before discussing the companies individually, some preliminary accounting remarks affecting the companies should be made.

8.2.1 Historical Profit Margins

The Inquiry is directed to “profit margins on the sale or distribution of . . . primary iron and steel products . . .” Various methods of evaluating gross profit margins realized on the sale of individual primary products as well as net profits realized on a consolidated company-wide basis, have been examined. The intermediate position, namely that of assessing profit margins as realized in the steelworks (that is that part of the company operations engaged directly in steelmaking and the production of primary products) has been done to the level of total primary product gross profit margins.

Gross profit margins have been reviewed for all primary products for the period 1961-1973, the former year being arbitrarily selected but it does carry the advantage of being the year in which the Consumer Price Index is based at 100 by Statistics Canada. The Inquiry did not require individual companies to establish for these purposes a standard method of calculating individual product gross profit margins as to do so would in our view be time consuming, expensive on the part of the steelmaking companies and, in any case, unnecessary in order to fulfil the directive in the Order in Council. It was ascertained that each company had been utilizing for its internal management control a system designed to produce gross profit margins for individual products. While individual company methods varied slightly, as did product definitions, on the whole reliable gross profit margin information for each primary product

was available in the records of each steelmaking company, at least as far back as 1961. The variations we have noted above, and minor calculation modifications over the years, were not found to detract from the usefulness of this gross profit margin information for the purpose of preparing an historical review thereof.

As individual product profit analyses usually did not extend beyond direct and indirect manufacturing costs it was necessary to review pre- and post-tax consolidated profits in relation to sales on a company-wide basis rather than on a basis confined to the production and sale of primary products. In this analysis a study was developed for each steelmaking company, for the period 1961-1973, of its return on investment (ROI), return on equity (ROE) and the relationship of consolidated net income before and after tax, to sales.

As might be expected, the trend of gross profit margins for individual products over the period under study was directly reflected in the trend of consolidated profits for each company both before and after tax. However, "before tax profits" may be considered a more accurate reflection of profit levels in the case of an integrated producer because as the degree of integration increases, the incidence of income taxation of the mining segment of the company's operations has a greater effect on the after tax profits. As gross profit margins on individual products are considered to be confidential information by the steelmaking companies, this report will refer to indicated illustrations of gross profit margins so as to retain the confidential nature of the information made available to the Inquiry. However, details of consolidated profits both before and after taxes expressed as a percentage of sales and as ROI and ROE are presented for individual companies in the appropriate sections of this report.

The relationship, if any, of price increases of primary products by each company was also analyzed in terms of its competitive position with respect to such products. We did not discover that price increases were directed by the degree of competition in respect to particular products.

Composite gross profit margins on individual products have not been prepared by this Inquiry on an historical basis principally because of the aforementioned lack of industry-wide standards for product classifications and for the associated cost accounting. However, composite consolidated profits before and after tax as a percentage of sales, and composite ROI and ROE calculations have been made for the three major integrated steel producers, for the period 1961-1973 and with reference to sales, for the first three quarters of 1974, and are as follows:

TABLE 8

**Composite Historical Consolidated Profit
Ratios for Three Majors**

	Income before Equity in Earnings of Associated Company and Extraordinary Items as a Percentage of Sales		Return on Equity ^(a) %	Return on Investment ^(a) %
	Before Tax	After Tax		
1961.....	18.6	10.3	12.5	9.4
1962.....	18.5	10.0	12.4	9.4
1963.....	20.5	11.0	13.6	10.4
1964.....	18.7	10.1	13.8	10.3
1965.....	18.4	9.7	13.3	9.1
1966.....	16.0	9.0	11.4	7.4
1967.....	13.3	8.7	10.0	6.3
1968.....	15.9	11.5	13.6	8.7
1969.....	11.3	7.8	8.4	5.6
1970.....	13.3	9.2	11.4	7.6
1971.....	12.0	7.7	9.7	6.3
1972.....	10.7	7.6	9.9	6.4
1973.....	14.2	8.9	13.1	8.6
1974 Quarters				
—first	14.1	9.2	} (b)	(b)
—second	14.7	9.4		
—third	14.9	10.2		
9 months to 30th September	14.6	9.6		

(a) Includes equity in earnings of associated company.

(b) Calculations not usually made at interim dates.

For the purposes of this report the following definitions of ROE and ROI have been adopted:

- (A) ROE – is the consolidated net profit after taxes and before extraordinary items for the year in question adjusted for preferred dividends, expressed as a percentage of the arithmetic average of the opening and closing amount of total common shareholders' equity being paid-in capital in respect of common shares plus retained earnings.
- (B) ROI – is the consolidated net profit after taxes and before extraordinary items for the year in question expressed as a percentage of the arithmetic average of the opening and closing amount of total assets, less current liabilities.

These definitions were adopted because they were those in use by the majority of the companies in the industry. (The failure of the majority to

adjust for the after-tax effect of long-term interest in calculating return on investment is contrary to certain opinions we have heard on this subject, but a discussion of this particular problem is beyond the scope of this Inquiry and a change from one method to the other would not affect our conclusions).

8.2.2 1974 Profit Margins and Costs

The Inquiry has reviewed individual product gross profit margins for the first six months of 1974 and in some cases for months subsequent to 30th June. Consolidated profit margins for the first three quarters of fiscal 1974 have also been reviewed. In addition, details of certain major cost increases in 1974 have been examined as have the forecasted effect of such cost increases, and the price increases under review on 1974 results. Information on these matters, to the extent that it can be disclosed, appears in the individual company sections of this report.

8.2.3 Mining Income

Mining profits pertaining both to ore and coal raise difficulties in all these computations. If the raw material is mined as a division of the steelmaker then the cost of the ore or coal is taken at either the market price or at the actual level of cost incurred in its mining with the profit generated in the former case appearing as a separate income item in calculating net income. On the other hand, if these operations are conducted in a separate corporation owned in whole or in part by the steelmaker, the cost is taken into the steelmaker's computations at the transfer price which usually approximates market price. The profits of the subsidiary operations are consolidated with the steelmaker's profits and therefore are included for the purposes of calculating ROI, ROE and the ratio between net income and sales. The final possibility is where the raw material is produced in a mine in which the steelmaker has no interest. In such a case the cost of the raw material is taken in at market price. All three of these possibilities appear in varying degrees in the operations of Dofasco, Algoma and Stelco.

In this discussion, we are not concerned with the question of consolidation of profits (because all the Big Three consolidate their mining profits) but with the calculation of cost increases of materials, product gross profit margins, and the effect on net income of price and cost increases.

The steelmaker who has devoted some of his capital borrowing power and undertaken the risk of investment in mining operations is, by the ordinary rules of our community, entitled to a return on those operations commensurate with the capital employed and the risks undertaken. It can be argued, therefore, that if such a steelmaker is required to reduce the cost of the ore and coal so produced below its market value by the amount of profits earned in its mining by the steelmaker, that steelmaker is penalized as compared to the competitor who will not so employ his capital or undertake such risks. Conversely, it can be argued with equal force that the steel buyer is entitled to the benefits of all the earnings of the steelmaker and to have his profits held to a

reasonable level but after all profits, including mining profits, have been taken into account.

We have attempted to balance these conflicting views by taking coal and iron ore into the computations of material cost increases, product gross profit margins, and annualized income at the transfer cost on the acquisition of iron ore and coal by the steelmaker and then indicating the effect of mining profits in the production of these raw materials.

8.2.4 Tables of increases in material costs

The tables in the individual company sections of this report showing the percentage increase in material costs for the Big Three are slightly different in their components. This has occurred because the tables were developed from the original submissions of each company to the Inquiry and they reflect the cost components in these submissions. The Inquiry, for reasons already stated, did not consider it necessary that each submission with reference to costs be in a standard format.

From an examination of the percentage increases appearing in these tables, it will be noted that percentage cost increases vary somewhat even though the detailed price information in the narrative following the tables is, in most cases, quite comparable. These differences in percentage increases primarily result from the costing system in effect in the individual companies which vary from what is essentially an average cost system to a system using current costs. As already stated in this report, in the interests of the Inquiry proceeding as rapidly as possible, and in an attempt not to involve the companies in recasting their records when it appeared unnecessary to do so to meet the requirements of the Order in Council, we have utilized the cost records already available in the individual companies. While the variations in costing methods have produced different cost increases for materials in the tables referred to, in comparing the dollar value of cost and price increases in the individual sections of the report entitled "Effect of 1974 cost and price increases" adjustments have been made to reduce the significance of these costing differences to the extent that they become immaterial in arriving at our conclusions. By using the individual company costing systems, which have been consistently applied over the years in all material respects, we have been able to make use of individual product gross profit information for years back to 1961 and tables giving this information appear in the report. Had we varied the system of each company into some standard format, the recalculations involved would have been needlessly time consuming and expensive both to the companies and the Inquiry. Furthermore these cost variations at the steel works level, because of adjustments made in the normal accounting of the companies, are not significant in the tables of historical consolidated profit ratios in the individual sections of this report.

8.2.5 Financial Statements of the Three Majors

To assist in reading the analysis of the accounts of the steelmakers which follows in this Chapter 8, we append hereto as Appendix "S" the balance

sheet and five year earnings records of Stelco, Algoma and Dofasco, respectively, which statements have been taken from the prospectuses filed with the appropriate securities agencies in the months of May and August, 1974 in connection with bond issues by each company as mentioned elsewhere in this report. For further details relating to this financial information and these debt offerings, reference may be had to the complete prospectuses on public file with the Ontario and other Provincial securities agencies.

8.2.6 Historical profit ratios

The profit ratios for each of Stelco, Algoma and Dofasco for the years 1961 to 1973 have been developed from the audited financial statements. The ratios for the first three quarters of 1974 are from unaudited quarterly financial reports to shareholders.

8.3 The Steel Company of Canada, Limited (Stelco)

Stelco is the largest steel producer in Canada. With a theoretical annual raw steel production capacity in excess of 6,000,000 tons, the company produces approximately 40% of the total Canadian steel output. The company and its subsidiaries employ more than 22,600 people in plants situated in Hamilton, Brantford, Toronto, Welland, Gananoque, Ontario; Montreal, Lachine, Contrecoeur, Quebec; Edmonton, Camrose, Alberta; and Regina, Saskatchewan. Residents of Canada own approximately 97% of its outstanding shares. The company's operations are fully integrated from the mining of coal, iron ore and limestone to the manufacture and distribution of iron, steel and steel products. In 1973 the company produced 5,723,000 net tons of raw steel. The company's production facilities include four blast furnaces with an annual capacity of 4,200,000 tons of pig iron, five basic open hearth furnaces, employing oxygen injection, with an annual steelmaking capacity of 3,200,000 tons and three basic oxygen furnaces with an annual steelmaking capacity of 2,700,000 tons. In addition to these facilities Stelco operates two electric furnaces in Edmonton and one in Contrecoeur with a combined capacity of 525,000 tons annually.

Raw materials

The company owns substantial interests in iron ore and coal properties in Canada and the United States. In 1973, raw material requirements were 5,173,000 gross tons of iron ore, 3,349,000 tons of coking coal and 643,000 tons of limestone. The company currently obtains virtually all of its iron ore and all of its limestone from properties in which it has ownership interests of various proportions up to 100%.

In 1973 approximately 60% of the company's coal requirements were produced from mines which are owned by its subsidiaries or in which its subsidiaries have an interest of various proportions up to 100%. Approximately half of the remainder was purchased from independent suppliers under arrangements whereby they supply coal subject to yearly price negotiations; and the balance was obtained by spot open-market purchases.

Products and markets

Stelco manufactures a broad range of primary steel products including:

Plate up to 140 inches in width.

Hot rolled and cold rolled sheets.

Galvanized sheets.

Prepainted sheets.

Electrolytic tin plate and tin mill black plate in coil form.

Hot rolled and cold finished bars.

Reinforcing bars.

Wire rod.

Stelco is engaged in the production and marketing of a number of by-products produced in the steelmaking process. Its products are marketed throughout Canada and exported to more than 50 countries. For this purpose, the company maintains sales offices throughout this country and in Switzerland, England, Argentina, Brazil and Venezuela. The size of its operations is illustrated by its sales which rose from \$477,823,000 in 1964 to \$937,662,000 in 1973.

Capital Programmes

The company's capital expenditures totalled approximately \$835 million in the ten year period from 1964 to 1973, and in the latter year amounted to \$116,513,000.

The long and short range expansion plans of Stelco involve the expenditure between now and the end of 1977 of \$610 million for the installation of additional steelmaking capacity of 1,300,000 tons annually which represents the first stage of the development of its newly acquired Lake Erie property. Under favourable economic conditions and assuming a continuing growth in the demand for steel, it is estimated that the company's capital expenditures over the next fifteen years could amount to \$2 billion including the expenditures at Lake Erie. At the same time the company is proceeding with the expansion of its iron ore mining interests including the establishment of iron ore pelletizing facilities.

8.3.1 Price Increases

Stelco introduced price increases with respect to some of its primary iron and steel products effective 15th May, 1974 and thereafter as follows:

TABLE 9

Stelco Price Changes

(\$/Net Ton unless otherwise shown)

Product	Base Price 14 May, 1974	15 May, 1974		4 Oct., 1974	
		New Base Price	% change	New Base Price	% change
BLOOMS AND BILLETS:					
Carbon.....	\$155.00	\$179.00	15.5%		
Alloy.....	176.00	200.00	13.6		
BAR PRODUCTS:					
Bars & Small Shapes					
Carbon					
(Merchant)....	169.00	193.00	14.2		
Carbon					
(Special).....	188.00	214.00	13.8		
Alloy.....	197.00	225.00	14.2		
Reinforcing Bar....	171.00	194.00	13.5		
Bars—Cold Finished					
—Carbon.....	247.00	283.00	14.6		
Bars—Cold Finished					
—Alloy.....	282.00	320.00	13.5		
Tin Plate.....	10.30/BB ^(b)			\$11.10/BB	7.8%
Black Plate.....	9.50/BB			10.30/BB	8.4%
Tie Plate.....	187.50	212.50	13.3		
Plate—Carbon.....	157.00	179.00	14.0		

(a) Prices calculated solely as to base price ignoring extras and price increases on extras.

(b) BB=Base Box.

These price increases affect 48% of the primary iron and steel output of Stelco.

The effect on sales revenue of *all* 1974 price increases, including those prior to 15th May, 1974,^(a) has been calculated on two bases:

Basis (i) The additional sales revenue expected to be generated in the balance of fiscal 1974 from all price increases (both primary and non-primary products) based on projected sales volumes for individual product categories from the date of increase to 31st December, 1974.

Basis (ii) The additional sales revenue that would be generated had the latest level of sales prices (for all products) been in effect for

(a) As it is impracticable to allocate precisely all cost increases between primary and non-primary products and to ascertain cost increases before and after a given date when sales prices have increased (i.e., 15th May), the effect of all sales price increases in 1974 has been calculated to permit a later comparison with the effect of all 1974 cost increases.

the entire 1974 fiscal year, based on actual volume of sales to date of increase and estimated volume for the balance of fiscal 1974.

On *basis* (i) total sales revenue for 1974 when compared with sales revenue for 1974 quantities at 1973 average selling prices shows a 17% increase. For *basis* (ii) total sales revenue for 1974 over sales revenue for 1974 quantities at 1973 average selling prices shows a 20% increase. The sales dollars generated on both these bases are compared later in this report with cost increases on similar bases.

8.3.2 Cost increases

At the time of its appearance before the Inquiry in June a projection was prepared by the company of 1974 raw material, labour and other costs using actual figures for the first three months and estimated quantities and prices for the balance of the year. To ascertain the impact of cost increases the quantities used in this projection were then applied to the actual 1973 costs for materials, labour, and other elements.

Materials

For the major raw material items and for all raw materials and fuels, the first column of the following table shows the percentage increase of raw material unit costs as forecast for 1974 when compared with actual unit costs for 1973. As a further indication of the rapid acceleration of certain raw material costs the second column in the table shows the percentage increase over actual 1973 unit costs of the latest costs incurred (approximately the level of costs in August 1974):

TABLE 10
Stelco Percentage Increase of Unit Costs

	Percentage increase of unit costs	
	1974 forecast to 1973 actual	1974 latest costs to 1973 actual
*Coal.....	79%	122%
*Iron ore.....	1	33
Scrap.....	109	105
Tin.....	79	75
Zinc.....	40	62
Natural gas.....	51	67
Fuel oil.....	64	72
Reagents.....	28	70
All raw materials and fuels.....	49	74

*At market price.

NOTE: When these percentages are compared to those of other companies in this Chapter 8, reference should be made to the comments in Section 8.2.4.

Mining income and “Inventory profits”

As noted below under the headings of Coal and Iron Ore, the charge to the steelmaking operation for these raw materials is at market price. Since a substantial portion of coal and iron ore originates in properties in which the company has ownership interests, the excess of market over the cost of producing these materials accrues to the company as mining income in relation to its ownership interest. Mining income (which is discussed in 8.2.3 above) is not included in the calculation of steelmaking costs.

In addition, Stelco uses most recent costs in calculating product costs, with the resulting “inventory profits” included as an inventory adjustment in arriving at consolidated profit before tax.

If the pre-tax profit impact of (i) mining income of coal and ore and (ii) “inventory profits” were applied directly to the costs of “all raw materials and fuels” in the table above, the percentage increase in the 1974 forecast to the 1973 actual would be reduced to 42% and the percentage increase in 1974 latest cost to 1973 actual would be reduced to 67% (in this latter case there would, of course, be no adjustment for “inventory profits”).

Details of certain of the above noted cost increases are as follows:

Coal

As noted above, coal is charged to the manufacturing operation at market prices. The average cost of coal consumed in 1973 was approximately \$20.50 per ton. In the 1974 forecast prepared in April, it was estimated that this average cost for fiscal 1974 would increase to approximately \$36. As an indication of the escalation of prices, for one of the higher volume classes of coal the original estimate of delivered cost based on market prices in existence around the beginning of the year was \$27 a ton. By the time the forecast was made in April, the price per ton delivered had increased to \$38. The average cost of all coal consumed based on August prices would have shown a further increase to \$44 per ton and the specific class of coal referred to above which had a \$38 per ton laid down cost in April had escalated to \$43 per ton. A further escalation of coal costs is expected as a result of contract negotiations now in progress with the United Mine Workers in the United States, from whence all the coal used by the company comes.

Iron Ore

In the April forecast presented to the Inquiry, there was only a marginal increase for 1974 estimated in the cost of iron ore. However, in the period April to August the quoted market price for iron ore pellets (per iron unit natural per ton) increased from 30¢ per unit to 41¢ per unit.

Scrap

For the largest steelmaking facility of the company, the Hilton Works, the average cost of all scrap in 1973 was \$44 a ton and in the April forecast this had increased to \$92 a ton. As an indication of the rapid escalation in the

costs of scrap purchases, the average company-wide scrap purchase cost increased from \$68 per ton in January to \$72 in February to \$99 in March to an estimate of \$115 in April. In the August forecast a slight reduction was made from the forecast in April as scrap prices stabilized at a slightly lower level.

Tin

The average cost of tin per pound in 1973 was \$2.21. In the April forecast the average cost for 1974 was \$3.92 and the latest cost in August showed a slight reduction.

Zinc

In the April forecast the average 1974 price was estimated at 33¢ a pound against a 1973 average of 24¢ a pound. The price existing in August had increased to approximately 39¢ a pound.

Natural Gas

The average unit price of natural gas for 1974 was increased in the April forecast to approximately 50% higher than in 1973; and the August, 1974 price showed an additional increase of about 20%.

Fuel Oil

The fuel oil category also includes other utilities at the finishing works. For fuel oil alone at the Hilton Works the average cost in 1974 is estimated to be about 125% higher, and current costs about 150% greater, than the 1973 average cost.

Reagents

This category includes a variety of products used in the steelmaking process and the increases to the time of the April forecast from the average cost of 1973 was 28%. Subsequently, substantial increases were experienced for certain of the products.

Wages and salaries

In the April forecast the wages and salaries expense was projected to be approximately 9% higher based on 1974 quantities of labour at 1973 average wage costs. The annualization (which term is discussed later) of all increases, including a special payment plan introduced as of 1st August, 1974, indicated an increase in wages and salaries of nearly 18% when using latest levels of wage costs as compared to 1973 average wage costs.

Other manufacturing costs

In April 1974, a large variety of costs categorized as other manufacturing costs showed increases generally in the area of 10% to 15% when compared with

the same group of costs for 1973. The subsequent comparison of these costs at August 1974 levels indicated that the increases were still within the 10% to 15% range.

8.3.3 Historical Profit Ratios

The following are the historical consolidated profit ratios for the period 1961 to 1973, inclusive, and for the first three quarters of the 1974 fiscal year:

TABLE 11
Stelco Historical Consolidated Profit Ratios

	Income as a percent of sales		Return on equity	Return on investment
	Before tax	After tax		
1961.....	17.2	9.5	10.3	9.1
1962.....	17.0	9.1	10.2	8.9
1963.....	18.5	10.0	11.8	10.1
1964.....	16.2	9.1	12.0	9.7
1965.....	15.9	8.4	10.9	8.0
1966.....	15.0	8.5	10.1	7.0
1967.....	13.9	9.1	10.5	7.2
1968.....	17.8	11.5	14.1	9.9
1969(a).....	10.6	5.9	6.1	4.4
1970.....	15.2	9.1	11.5	7.9
1971.....	15.1	9.1	11.9	8.1
1972.....	11.6	8.6	11.2	7.7
1973.....	15.4	9.4	13.5	9.3
1974 Quarters			}	(b)
—first.....	13.2	8.3		
—second.....	14.9	9.4		
—third.....	17.0	11.1		
—9 months to 30th September	15.1	9.6		

(a) 1969 results affected by 80-day strike.
(b) Calculations not usually made at interim dates.

The four major product categories (accounting for over 60% of primary product sales in 1973) and all primary products show indexed gross profit margins^(a) (1961=100) as follows:

(a) For Stelco gross profit margins are defined as the ratio of sales revenue, less all costs except depreciation, administrative and selling, research and development, interest on long-term debt, income taxes and certain manufacturing costs (which are not usually allocated to products and that would not have a material effect on the trend of margins if allocated) to total sales revenue. Mining income and "inventory profits" are not included in the calculation. (See page 55 above).

TABLE 12

Stelco Indiced Gross Profit Margins

	Product				All primary products
	A	B	C	D	
1961.....	100	100	100	100	100
1962.....	94	96	100	101	97
1963.....	104	105	103	97	104
1964.....	102	99	98	86	98
1965.....	104	101	99	85	99
1966.....	98	109	92	85	94
1967.....	91	100	93	90	90
1968.....	91	102	97	101	92
1969.....	88	105	94	101	90
1970.....	86	92	87	88	83
1971.....	93	96	88	89	86
1972.....	86	90	84	78	79
1973.....	92	92	86	63	81
1974 first half..	63	63	64	28	54

No significant change in the trends of product gross profit margins in the period 1961 to 1973 would have resulted from the inclusion of mining income and inventory profits, but the individual product gross profit margins would have been somewhat higher than those indicated in the Table. However, had both these items been credited to costs entering into the gross profit calculation for "all primary products" for the first half of 1974 the gross profit index of 54 would have been about 75. Furthermore, gross profit margins on primary products are subject to greater reductions than secondary products when raw material costs are increasing, because raw materials represent a larger component of total costs in the former.

8.3.4 1974 Profit Margins

The Table on page 57 demonstrates that 1974 income as a percent of sales by quarters has fluctuated around the 1973 level with the nine month percentage before tax slightly below 1973 and after tax slightly above 1973. For the nine month period in 1974 the before tax percentage is still below that realized in over half of the years in Table 11. The after tax percentage for nine months in 1974 is within $\frac{1}{2}\%$ of that realized in eight of the years in the period 1961 to 1973. Should income in the fourth quarter approximate that of the third quarter the resulting income as a percentage of sales, both before and after taxes, for the year ending 31st December, 1974 will be within historical levels.

The following table is taken from the nine month statement of Stelco published on 31st October, 1974 with comparisons to 1973 periods:

TABLE 13

Comparative Third Quarter Statements for Stelco

	Three Months		Nine Months	
	Ended 30th September		Ended 30th September	
	<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>
	(dollars in thousands)			
Sales.....	\$290,445	\$219,781	\$836,594	\$689,618
Depreciation....	13,300	10,650	38,700	35,450
Income Taxes....	17,267	12,440	45,704	38,102
Net Income.....	32,211	19,704	80,630	61,414

Part of the explanation included in the third quarterly report by Stelco for increased earnings in this period is as follows:

“This situation results from the consumption of inventories which have been produced in prior periods at lower cost . . .”

In earlier testimony the officials representing the company had stated that since Stelco was not in the current year producing finished products for inventory but rather to fill orders on hand, there was virtually no product inventory on hand. The company then filed a study of finished product inventories showing a significant decline in 1973 and 1974, and indeed the figures for May 1974 are the lowest for any month in the study since 1968. We have received an explanation from Stelco that the above quoted wording in the third quarterly report refers to consumption of raw material inventories which had been purchased or acquired in earlier periods.

Without revealing internal financial data which must necessarily be kept confidential, an examination of the details behind the foregoing Table indicates that when inventory profits are removed from the nine month period in 1974 and from the comparable period in 1973, Stelco's profit position shows a slight reduction in 1974 as compared to 1973. The net income for the nine month period of 1974 appears to have increased 31% over the same figure for 1973. With the elimination of inventory profits the company's profit would be slightly smaller than for the same period in 1973.

Inventory profits require a word of explanation. Inventory profit is the difference between the current costs at the time of manufacture and the actual or average costs of raw materials used in the manufacturing process. In a period of rapidly rising costs of materials operating gross profits will not reflect current costs of materials because of the inclusion of materials previously purchased at lower costs. For example:

TABLE 14

Illustration of Inventory Profits

	<u>Quantity</u>	<u>Unit Cost</u>
Inventory on hand 1st January, 1974.....	100 units	\$100
Additions.....	<u>100</u>	<u>130</u>
	Average	
	Total <u>200</u>	Cost <u>\$115</u>
	<u>Current Costs</u>	<u>Average Costs</u>
Selling price of one unit.....	\$150	\$150
Cost of one unit.....	<u>130</u>	<u>115</u>
Gross Profit.....	<u>\$ 20</u>	<u>\$ 35</u>

Gross profits using average costs would be \$35, while they would be \$20 based on current costs. The difference, \$15, is inventory profit. The interim statements of Stelco and other major producers examined later in this Chapter include in their income, inventory profits which are a significant part of the increased income.

Calculations of ROE and ROI are not normally made at interim dates. However projections of annual ROE and ROI for Stelco, based on nine months actual results and assuming income in the fourth quarter approximates that of the third quarter, would indicate that for 1974 these profit measurements will exceed 1973 and be equal to or slightly ahead of the highest levels recorded in the period 1961-1973. However these levels will only be reached as a result of the inventory profits noted above. Without such profits the projected ROI and ROE for 1974 will be well within the range for 1961 to 1973. A realistic assessment of a return or profit by any standard cannot omit the comparison of results achieved with the return one may receive by simple and safe investment at present interest rates.

8.3.5 Effect of 1974 cost and price increases

In addition to the cost/price studies for 1974 on pages 52 and 54 above, a hypothetical forecast has been prepared at the request of the Inquiry (and sometimes referred to as the "annualized forecast") based on the most recent level of costs and prices as follows:

- (A) Sales revenue for all products was calculated by applying the price schedule in existence at the end of August to 1974 sales volume (based on the first seven months actual and the last five months forecast), and
- (B) Costs and expenses were calculated by applying the latest level of costs (at the end of August) to the 1974 volume of raw materials and other cost components (based on the first seven months actual and the last five months forecast).

On the "annualized forecast" basis the increase in sales revenue that would be realized (when compared with estimated 1974 volume at average 1973 selling prices) would be substantially less than the increase in cost and expenses calculated on a full year basis at latest cost levels, even after reducing the cost increases by the additional mining income generated.

On the 1974 fiscal year forecast basis the increase in sales revenue for 1974 resulting from all price increases in 1974 would fall short of recovering the increases in costs and expenses in the same period, even after reducing the cost increases by the additional mining income and by "inventory profits" (see page 55).

Cautionary remarks

In considering the foregoing comparisons of cost and price increases, both as they related to the annualized basis and to the 1974 forecast basis, one must bear in mind that this is not an attempt to forecast what will actually happen in 1974 or beyond. *These calculations are prepared solely to establish a relationship between cost and price increases.* We have not attempted in this report to project the 1974 earnings on a fiscal year basis or the earnings produced by the annualized forecast, because to do so would involve too many completely arbitrary assumptions and would, in any case, be virtually impossible by reason of the inevitable dynamics of costs and conditions in the latter part of 1974 and beyond. To make such calculations surrounded by uncertainties and unknown quantities would be to produce a result which would be very misleading to the public, particularly to the financial community and it would of course raise serious questions under provincial securities legislation.

It is particularly important to remember, in considering the comparison of cost and price increases above, that no account has been taken in its preparation for:

- A. Cost increases in the balance of 1974 and these, of course, in this year of serious inflation, are inevitable and some indeed have already been announced by producers and hydro authorities;
- B. Sales volume changes and changes in mix of sales;
- C. Productivity changes over those taken into account in the original estimate; and
- D. Income from subsidiaries not in the primary iron and steel product category.

8.3.6 Conclusions

Finally to revert to the tests applied throughout this analysis, it is apparent from both the "annualized forecast" and the 1974 fiscal year forecast that increased costs and expenses have exceeded increased sales revenue.

Similarly, as noted in Table 11 and in the discussion on page 58, income as a percent of sales for the nine months to 30th September, 1974 is still within the range of previous profit margins calculated on this basis. With respect to ROE

and ROI, and further to the comments on page 60, while these profit measurements are expected to be at or slightly above previous high levels should the fourth quarter income approximate that for the third quarter, given the current high interest rates it does not seem unusual that ROI and ROE should be at these levels in this year of absolute capacity operations. Furthermore, as previously noted, these levels will be achieved only as a result of inventory profits.

Therefore one must conclude that the profit margins currently prevailing in Stelco's accounts are not greater than "customarily earned" in the past years by the company. But given the continuance of present levels of demand and prices, future price policies of the company should be dedicated to the principle that increased costs should alone determine the timing and scale of any price increases, subject to an allowance for the inventory profit phenomenon occasioned by the rapid 1974 cost increases. This policy should be acceptable because it has been Stelco's submission that a reasonable return in this industry is 10% on total investment, and the level of earnings appears to be approaching this rate for the first time since 1963.

8.4 The Algoma Steel Corporation, Limited (Algoma)

Algoma with its subsidiaries is a primary iron and steel producer which operates its principal plant in Sault Ste. Marie, Ontario in association with secondary manufacturing plants and the supporting facilities relating to both operations. Raw steel production capacity at the present time amounts to 2,800,000 tons annually, ranking it third largest in Canada. The steelmaking facilities include four blast furnaces and five basic oxygen furnaces, continuous casting equipment, primary and secondary rolling mills, all of which are located on 2,800 acres of land on the St. Mary's River at Sault Ste. Marie. With the completion of plant now under construction steelmaking capacity will reach 4,000,000 tons by late 1975, all of which will be produced in basic oxygen furnaces. The company leases on adjoining premises tubemaking facilities; the lease contains an option to purchase.

The following primary steel products are produced by the company:

- Ingots
- Blooms, billets and slabs
- Heavy and light rails and fastenings
- Beams and heavy standard structurals
- Light structurals
- Carbon merchant bars
- Reinforcing bars
- Hot rolled plate
- Hot and cold rolled sheet and strip
- Skelp

At Port Colborne, Ontario the company has the capacity to produce 240,000 tons of iron annually.

The company owns approximately 43% of the shares of Dominion Bridge Company, Limited which is a diversified company whose activities include the

production of steel and steel products (in its Manitoba Rolling Mills Division), the fabrication of steel for industry and the construction trade, a warehousing operation throughout Canada and, through subsidiaries, a number of operations in the United States.

Algoma has undergone a considerable change over the past decade in its steelmaking capacity, its range of products, product sizes and product mix. The following table illustrates these changes:

TABLE 15
Product Mix

	Percent of steel shipments	
	1963	1973
Plate and sheet.....	37	57
Structurals.....	20	21
Rails and fastenings.....	7	8
Bars and grinding media.....	5	5
Tube rounds, seamless tubes and skelp.....	19	8
Semi-finished.....	12	1
	<u>100</u>	<u>100</u>

Algoma and its subsidiaries employ approximately 11,200 people. During the course of the hearings before this Inquiry control of Algoma was acquired in July 1974 by Canadian Pacific Investments Limited which owns approximately 51% of the outstanding shares.

Raw materials

About 85% of the iron ore used in the company's blast furnaces is supplied from properties which are owned or leased by the company at Wawa and Steep Rock Lake, Ontario. In 1971 a subsidiary of Algoma, Cannelton Iron Ore Company, and four other companies in the steel and iron ore business formed Tilden Iron Ore Company which is participating in a joint venture to lease and develop an extensive iron ore property in Northern Michigan. A pellet plant and related facilities are being constructed and are expected to commence production in late 1974. Cannelton Iron Ore's annual entitlement will be 1.2 million gross tons of pellets and in addition a further 300,000 gross tons of pellets have been purchased from another participant in the venture. These operations will provide most of the balance of Algoma's iron ore requirements for an annual capacity of 4 million tons of raw steel.

A wholly owned subsidiary of Algoma, Cannelton Industries Inc. currently supplies about 85% of the company's coal requirements from its coal mining operations in West Virginia, U.S.A. Present annual capacity for the production of high volatile coal is approximately 1,500,000 tons and for low volatile coal is approximately 450,000 tons. These quantities were produced in 1973. The 15% of the coal requirements obtained from other than Algoma's subsidiaries was acquired by purchase on the open market, either by long-term contracts or on a spot purchase basis.

Algoma is self-sufficient in scrap and is thus not affected by increases in scrap prices.

8.4.1 Price Increases

Algoma has introduced price increases, as shown in Table 16, with reference to its primary iron and steel products from the date of the Order in Council onward. It will be noted that prices to United States buyers of the company's products were also increased. About 20% of the company's output is exported to United States customers.

The price increases relating to primary iron and steel products of Algoma that are pertinent to this Inquiry occurred in two periods, from 15th May to 19th June, 1974 and in the early fall of 1974. These price increases cover all of the primary iron and steel products of Algoma. The original focus of this Inquiry insofar as Algoma was concerned, related to the price increases in the period 15th May to 19th June and all submissions during June, July and August in both public and private sessions related to these increases. At the request of the Inquiry these submissions were updated in October to reflect both additional cost increases since the original submissions and the sales price increases to 30th September. Accordingly this report will consider both the initial submissions relating to the May/June increases and the updated submissions prepared following the September increases.

The effect on sales revenue of *all* 1974 price increases^(a) has been calculated on two bases:

Basis (i) The additional sales revenue expected to be generated in the balance of fiscal 1974 from all price increases (both primary and non-primary products) based on projected sales volumes for individual product categories from the date of increase to 31st December, 1974.

Basis (ii) The additional sales revenue that would be generated had the latest level of sales prices (for all products) been in effect for the entire 1974 fiscal year, based on actual volume of sales to date of increase and estimated volume for the balance of the 1974 fiscal period.

On *basis* (i), sales revenue for 1974 when compared with sales revenue for 1974 quantities at 1973 average selling prices shows an increase of 17% after the May/June sales price changes and an increase of 19% after the September price changes. For *basis* (ii), sales revenue for 1974 over sales revenue for 1974 quantities at 1973 average selling prices shows a 22% increase based on the June price levels and a 27% increase based on the October price levels. The sales dollars generated on both these bases are compared later in this report with cost increases on similar bases.

8.4.2 Cost increases

At the time of its appearances before the Inquiry in June and July, the company prepared a projection of 1974 raw materials, labour and other costs

(a) As it is impracticable to allocate precisely all cost increases between a primary and non-primary product and to ascertain cost increases before and after a given date when sales prices have increased (i.e., 15th May), the effect of all sales price increases in 1974 has been calculated to permit a later comparison with the effect of all 1974 cost increases.

TABLE 16

Algoma Price Changes

(\$/Net Ton, f.o.b. Sault Ste. Marie)

Product	Pre May 15, 1974	May 15, 1974		June 7, 1974		June 19, 1974		September 25, 1974	
	Base Price	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change
Heavy Rails.....	\$158.50	\$180.50	13.9						
Splice Bars.....	198.00	222.00	12.1						
Bars—Merchant Quality.....	169.00					\$185.00	9.5		
Bars—Special Quality.....	188.00					206.00	9.6		
Tie Plates.....	179.50	205.00	14.2						
Plates (other than floor plates)...	157.00			\$172.00	9.6				
Floor Plates.....	167.00			182.00	9.0				
Structural Shapes.....	164.00					181.00	10.4		
Welded W.F. Beams 110 lb./ft. and under.....	213.00					230.00	8.0		
Welded W.F. Beams over 110 lb./ft.....	210.00					227.00	8.1		
Cold Rolled Sheets.....	197.00							\$212.00	7.6
Cold Rolled Strip.....	201.00							221.00	10.0
Hot Rolled Sheet.....	163.00							177.00	8.6

using actual figures for the first four months and estimated quantities and prices for the balance of the year. These 1974 cost projections were updated based on October price levels using the same quantities appearing in the earlier submissions. To ascertain the impact of cost increases to June and to October, the quantities used in this projection were then applied to the average 1973 costs for material, labour, and other costs.

Materials

For the major raw material items and for all raw materials and fuels, the first two columns of the following table show the percentage increase of raw material unit costs as forecast in June and October for 1974 when compared with actual unit costs for 1973. As a further indication of the rapid acceleration of certain raw material costs, the third and fourth columns in the table show the percentage increase over actual 1973 unit costs at the latest level of known costs (at the June level in column 3 and at the October level in column 4).

TABLE 17
Algoma Percentage Increase of Unit Costs

	Percentage increase of unit costs			
	1974 forecast to 1973 actual		1974 latest costs to 1973 actual	
	June	October	June	October
*Coal.....	59%	65%	79%	108%
Iron ore.....	14	20	14	30
Alloy additions.....	32	37	32	37
Electric power.....	8	14	9	19
Fuel oil.....	75	75	100	101
Natural gas.....	26	18	78	78
All raw materials and fuels.....	33	37	42	59

*At market price.

NOTE: When these percentages are compared to those of other companies in Chapter 8, reference should be made to the comments in section 8.2.4.

Mining Income

The charge to the steelmaking operation for the use of coal in the above table is at market price. Since a substantial portion of coal originates in properties in which the company has an ownership interest, the excess of market over the cost of producing this coal accrues to the company as mining income in relation to its ownership interest and so appears in the consolidated company accounts. Mining income (which is discussed in section 8.2.3 above) is not included in the calculation of steelmaking costs.

Iron ore which principally comes from company owned or leased properties, which are operated mainly as divisions of the company (unlike coal which

in some calculations is segregated out into the accounts of subsidiaries) is shown throughout at cost.

Use of LIFO(a)

In addition Algoma has used in its submissions to the Inquiry a LIFO method of calculating 1974 costs, which differs from the average cost method used in 1973 and prior years and used in 1974 interim reporting to shareholders. (The LIFO method has not been used in 1974 in calculating individual product gross profit margins in the table at page 70).

If the pre-tax profit impact of mining income from coal and the effect of changing from an average cost to a LIFO method in calculating latest costs, were both applied directly to "all raw materials and fuels" costs in the table above, the percentage increase in the 1974 June forecast to the 1973 actual would be reduced from 33% to 23% and the percentage increase in 1974 latest costs (June) to 1973 actual would be reduced from 42% to 36% (in this latter case there would, of course, be no adjustment for the LIFO method as it is meant to reflect only latest costs). Comparable changes would occur in the calculations relating to October cost levels.

Details of certain of the above-noted cost increases are as follows:

Coal

As noted above, coal is charged to the manufacturing operation at market prices. The average cost of coal in 1973 was slightly in excess of \$20 a ton. In the June forecast receipts of coal during 1974 were estimated to have an average laid down cost in Sault Ste. Marie slightly in excess of \$36 a ton. By October the laid down cost of a ton of coal had increased to approximately \$42 a ton.

Iron ore

There are basically two categories of iron ore in use, namely sinter and iron pellets, and the percentage increase shown in the table above is a composite for both sources of iron ore.

Scrap

It should be noted that Algoma is self-sufficient in scrap while Dofasco and Stelco are required to purchase a proportion of their scrap requirements. Algoma is self-sufficient in scrap because all its steelmaking is performed in basic oxygen furnaces and Algoma's product mix, with a high proportion of

(a) In its submissions to the Inquiry concerning cost increases the company used the HIFO (highest in first out) method of costing. This method is not in common use and, as it produces the same effect as LIFO (last in first out) in a period of rising costs, we have referred to this method as LIFO in this report.

medium and high carbon steels, permits the use of a lower percentage of scrap in the furnace charge than at Dofasco, which also uses only basic oxygen furnaces.

Alloy additions

In its submission the company grouped together a large number of alloys which are added during the steelmaking process. The main items in this category are aluminum, manganese, copper and ferro silicon. The 32% increase appearing in the table is a composite increase for all of the alloy additions. As an indication of the unit cost increases appearing in the June forecast, as compared to 1973 actual, aluminum bar had risen by approximately 75%, crushed manganese by about 45%, copper by approximately 22% and ferro silicon by about 30%.

Fuel Oil

The average cost of fuel oil in 1974 is estimated to be about 75 percent higher than in 1973; and current fuel oil costs are about 100 percent greater than the 1973 average cost.

Natural Gas

The average cost of natural gas in 1974 is estimated to be about 26 percent higher than in 1973; and current natural gas costs are about 78 percent greater than the 1973 average cost.

Wages and salaries

In the June forecast the wages and salaries expense was projected to be approximately 8% higher based on 1974 quantities of labour and 1973 average costs. The annualization of all increases based on the June forecasts indicated that wages and salaries would be approximately 11% higher as compared to average 1973 costs.

Other production costs

In the June 1974 forecast, a large variety of costs categorized as "other production costs" show increases generally in the area of 5% to 15% averaging 13%, when compared with the same group of costs for 1973. However, one special relocation cost resulted in this entire category increasing by a little over 22%.

8.4.3 Historical profit ratios

The following are the historical consolidated profit ratios for the period 1961 to 1973, inclusive, and for the first three quarters of the 1974 fiscal year:

TABLE 18

Algoma Historical Consolidated Profit Ratios

	Income before equity in earnings of associated company and extraordinary items ^(a) as a percent of sales		Return on equity	Return on investment
	Before tax	After tax		
1961.....	17.9	11.6	15.0	10.5
1962.....	19.8	11.8	14.7	10.5
1963.....	21.9	12.7	15.8	11.5
1964.....	21.2	12.1	15.1	11.0
1965.....	21.9	12.4	16.2	11.5
1966.....	16.7	10.1	12.2	8.4
1967.....	9.3	7.0	7.1	4.7
1968.....	8.0	8.7	8.9	5.7
1969 ^(b)	(0.8)	4.5	4.4	2.9
1970.....	6.2	8.7	10.2	7.0
1971.....	4.3	4.3	5.4	3.7
1972.....	3.9	4.0	5.5	3.7
1973.....	8.2	6.2	9.3	6.3
1974 Quarters				
—first.....	11.6	9.0	} (c)	(c)
—second.....	14.0	9.3		
—third.....	12.1	10.3		
—9 months to 30th September	12.6	9.5		

(a) Extraordinary credits were recorded in several years, but for purposes of the above table the only significant credit took place in 1971 when a gain of \$21,504,000 was recorded on disposal of Canada Steamship Lines, Limited shares. Income as a percent of sales has been calculated before equity in earnings of associated company (Dominion Bridge Company, Limited) because otherwise the ratios would be overstated. However, income used in the return on equity and return on investment calculations includes equity in earnings of associated company because the investment in Dominion Bridge appears as an asset in the consolidated balance sheet.

(b) 1969 results affected by 96-day strike.

(c) Calculations not usually made at interim dates.

Four major product categories (accounting for over 50% of primary product sales in 1973) and all primary products show indexed gross profit margins^(a) (1961 = 100) as follows:

TABLE 19

Algoma Indexed Gross Profit Margins

	Product				All primary products
	A	B	C	D	
1961.....	100	100	100	100	100
1962.....	112	101	112	93	106
1963.....	132	97	132	104	117
1964.....	129	87	126	102	115
1965.....	135	103	130	103	122
1966.....	128	91	108	91	106
1967.....	114	75	80	77	89
1968.....	99	61	76	75	76
1969.....	97	57	78	55	66
1970.....	89	61	87	60	71
1971.....	100	61	75	53	76
1972.....	99	57	83	48	72
1973.....	106	74	98	57	89
1974 first half..	123	91	120	80	112

8.4.4 1974 Profit Margins

The table on page 69 shows a substantial improvement in profit margins as a percent of sales in the first three quarters of 1974 as compared with 1973. The Inquiry did not consider it necessary to examine the improved third quarter results (as compared with 1973) in depth because of its earlier examination of the improvement in the company's earnings to 30th June, 1974, there being no significant difference between the results in these periods.

Following the release of second quarter results on 29th July, 1974, the significant improvement in profits recorded by the company in the first six months of 1974 as compared to the six months ended 30th June 1973, and the improved profit ratios in the first half of 1974 compared with those recorded for the entire 1973 fiscal year, were examined in some detail at the public hearing on 8th August, 1974. The company explained the increase in consolidated net earnings for the six months ended 30th June, 1974 (\$25,726,000) over the six months ended 30th June, 1973 (\$10,975,000).

(a) For Algoma gross profit margins are defined as the ratio of sales revenue, less all costs except depreciation, administrative and selling, interest on long-term debt, income taxes and certain manufacturing costs (which are not usually allocated to products and that would not have a material effect on the trend of margins if allocated), to sales revenue. Coal and iron ore are included at market prices.

For the purpose of analysis, the company divided the earnings increase into two broad categories, one relating to increases resulting from sales in Canada of steel products which are classified as primary iron and steel products, and the other relating to all other activities of the company. The former category (sale of primary steel products) accounted for 38% of the increased earnings, and of the 38% about 7% represented increase in volume and 31% increased margin due to change in product mix and higher sales return which includes higher sales prices. The remaining 62% of the increase in earnings resulted from:

- A. Increased earnings from Dominion Bridge Company, Limited (20.4%);
- B. An increase in earnings on sales of coal by Cannelton Industries to third parties in the United States (6.2%);
- C. An increase in earnings on sales of steel products in export markets (of which approximately 40% were primary products and 60% non-primary products) (19.7%); and
- D. An increase in earnings on sales of steel products in Canada not classified as primary iron and steel products (15.7%).

The company also noted a number of major operational factors which contributed to the 1974 increase in earnings and these included:

- A. Production of iron at the steelworks at 96% of rated capacity (compared to 94% in 1973), and production of raw steel at 99.2% of rated capacity (compared to 97.9% in 1973). Production at such high levels allowed the realization of certain economies.
- B. 1974 is the first full year during which all raw steel has been produced in basic oxygen furnaces, the less efficient open hearth furnaces (which produced one-third of the total raw steel production in 1973) having now been completely replaced. Furthermore, 76.5 percent of all steel produced in 1974 has come from the new and most efficient number 2 basic oxygen steel plant as against only 16.4 percent of total production in 1973.
- C. An increase of 32% in the tonnage of raw steel continuously cast in 1974 which contributed to an increase of about 1½% in the yield from raw steel to finished product. This added approximately \$3.5 million to gross earnings in 1974.
- D. A reduction of 8.2% in man hours per ton of product in 1974 which yielded a saving of \$5.6 million as a result of new facilities, technology changes and improved labour management relations and increased volume.
- E. In addition there were a number of factors which adversely affected the first six months of 1973 amounting to approximately \$2 million non-recurring expenses such as new facility start-up expenses and extraordinary repairs.

It was the company's view that a relatively small percent of the improvement in earnings in the period being analyzed in detail resulted from higher

prices and a large percentage resulted from productivity improvements directly attributable to substantial additional investment in capital assets. Mr. D. S. Holbrook, Chairman and President of Algoma, commented that: "at full operations there is surely every right to expect an adequate return on the increased shareholders' investment." The question we then set out to answer was whether the 1974 post-price increase earnings can be so described.

The company published financial information on 24th October, 1974 with reference to the quarterly and nine month periods ended on 30th September, 1973 and 1974 and the following is extracted therefrom:

TABLE 20

Comparative Third Quarter Statements for Algoma

	Three Months Ended 30th September		Nine Months Ended 30th September	
	1974	1973	1974	1973
	(dollars in thousands)			
Net sales.....	\$113,242	\$91,024	\$338,854	\$274,550
Depreciation and amortization....	6,327	6,114	18,756	17,371
Interest and expense on debt.....	2,856	2,223	7,575	6,318
Earnings before income taxes.....	13,731	7,630	42,734	17,752
Income taxes.....	2,060	2,145	10,397	3,334
Earnings before equity in earnings of associated company.....	11,671	5,485	32,337	14,418
Equity in earnings of associated company.....	2,513	1,583	7,573	3,625
Net earnings.....	14,184	7,068	39,910	18,043

The quarterly earnings increased in 1974 by 100% over the earnings for the same period in 1973 and earnings during the first nine months of 1974 have increased 120% over earnings for the first nine months in 1973.(a) In analyzing these increases, it is most important to remember that in the period of rising raw material costs, the stated net earnings will include a substantial amount of inventory profits. Inventory profits are discussed at page 59 with reference to the accounts of Stelco and the same principles apply to Algoma. The comments made above with reference to the period ended 30th June, 1974 apply equally to the above nine months. It should be pointed out that third quarter earnings before taxes as a percentage of sales revenue actually declined from the second quarter (see table on page 69).

(a) The largest United States steel producer, The United States Steel Corporation, has reported earnings increases in the first nine months of 1974 and the third quarter of 1974 of 109% and 145% respectively, compared to the previous year. This is not surprising because the company's plant is said to be operating at peak capacity and prices which were already above Canadian levels have, in 1974, been subjected to greater increases than in the case of Canadian prices.

8.4.5 Effect of 1974 cost and price increases

In addition to the cost/price studies for 1974 on page 64 of this report, a hypothetical forecast has been prepared at the request of the Inquiry (and later referred to as the "annualized forecast") based on the most recent level of costs and prices as follows:

- (A) Sales revenue for all products was calculated by applying the price schedule in existence at the end of June and again at the end of September to 1974 sales volume (based on 1974 budgeted volumes used elsewhere) and
- (B) Costs and expenses were calculated by applying the latest levels of costs at the end of June and again at the end of September to the 1974 volume of raw materials and other cost components (based on 1974 budgeted volumes used elsewhere).

On the "annualized forecast" basis the increase in sales revenue that would be realized (when compared with estimated 1974 volume at average 1973 selling prices) would be somewhat in excess of the increase in cost and expenses calculated on a full year basis at latest cost levels after reducing the cost increases by the additional mining income generated. The same relationship existed at both the June and October levels of sales prices and cost increases.

On the 1974 fiscal forecast basis the increase in sales revenue for 1974 resulting from all price increases in 1974 would somewhat exceed the increases in costs and expenses in the same period after reducing the cost increases by the additional mining income and by "inventory profits".

As Algoma's profit margins by the various measures adopted in Table 18 in 1974 are still below the composite margins for the major integrated producers shown in Table 8, and below levels achieved in the period 1961-1965, the relationship of revenue to cost increases noted above are not in themselves indicative of higher than customary profit margins.

Cautionary Remarks

Reference should be made to page 61 above, as the comments there made relating to Stelco's "annualized" accounts and "1974 forecast basis", apply equally to this part of the report with respect to Algoma.

8.4.6 Conclusions

The determination of the position of Algoma price increases since the 22nd May, 1974 under the standards and definitions of the Order in Council establishing this Inquiry have given us somewhat more difficulty than in the case of the price increases of the other two major integrated producers. In the case of Algoma it must be borne in mind that traditionally about 20% of the company's sales revenues have been derived from exports.

The earnings of Algoma for the first nine months of 1974 are, as we have mentioned, double those for the same period for 1973. The same applies for the third quarter period taken by itself. This is the first quarterly period in which sales revenues include any significant additional revenues flowing in because of

the price increases under examination. In itself the sharp increase in the earnings of Algoma in the first three quarters of 1974 is not decisive in the determination of matters under question in this Inquiry unless the profit margins resulting from the increases after 15th May, 1974 are greater than those which customarily obtain in the company and the industry.

It must first be established if 1973 was, in the Algoma income pattern, a year of normal earnings, or of earnings above or below normal. Income in 1973 measured with reference to sales revenues, equity or investment was below the average of the company in the past 15 years and well below the results in the period 1961-1965, being the years most comparable to 1973 and 1974. Profit margins on representative products likewise show 1973 (as we see in Table 19) below the range of profit margins prevailing in the company during the comparable period in the 1960's. Algoma's income is in the second year of a recovery curve.

In addition to the factors mentioned with reference to the earnings in the first half of 1974 (at page 71 above), one must bear in mind that Algoma since 1959 has been producing a considerable volume of structural steel products from a plant built specially for that purpose. The other two majors produce very few of these products. It is therefore not surprising to find that since the early 1960's, Algoma's sales have been influenced by the state of the construction industry of this country. The effect of construction prosperity in the early 1970's on these revenues amplifies the effects of the other factors we have already detailed on pages 71 and 72 above. This of course leaves this company more sensitive in the future to variations in construction activity.

In summary therefore, an analysis of the current earnings reports of Algoma and their comparison with the record of the company in past comparable periods, reveals company earnings from primary steel production are showing sharp improvement over the early 1970's principally because:

- A. The company is now for the first time producing steel entirely from its modern basic oxygen furnaces put in place in the recent heavy investment programme now reaching completion.
- B. Earnings on export sales have increased.
- C. The comparison should be made between 1974 earnings and earnings in those periods (1961-1965) prior to the extreme dislocation encountered by this company during the large plant expansion and the fundamental reorganization of its production facilities we have mentioned. The period of labour unrest in the late 1960's also distorts comparisons.

This company, by the expenditure of \$326 million on capital programmes since 1966 for the replacement of obsolete equipment, the expansion of capacity and for the reorganization of its productive facilities, has come out of a period of competitive disadvantage and relatively low earnings. The earnings recovery, commenced in 1973, has continued into 1974. It should also be emphasized that profit margins in the current years tested by the various methods of

analysis we have used, are still below those of the 1961-65 period, which is the last comparable period or cycle in Algoma's history.

A comparison of Algoma's current results with those of the other major producers shows a slight lag by Algoma in ROI and in the ratio of income to sales particularly before taxes. The ROI and ROE tests in the case of Algoma have in recent years improved due in part to the inclusion of the expanding results of Dominion Bridge Company, Limited. Table 20 illustrates the improvement in earnings from this source.

Having compared current earnings with those of the other major producers in the industry and having analyzed those earnings with respect to the historic records of the company, we have concluded that profit margins currently prevailing in Algoma are not greater than "customarily obtain" either in the relevant earnings periods of Algoma, or in the steel industry generally at present.

It must be remembered that some price increases did not become effective until late September and therefore their impact on earnings will not be felt until the fourth quarter of 1974. Since 1974 earnings projected from the first three quarters, without the benefit of the September increases, are already in the range of historic highs for both ROE and ROI, future price increases should, in order to avoid earnings exceeding those customarily achieved by the company or the industry, be strictly cost oriented. This comment must necessarily be subject to a recognition that current earnings include inventory profits, a product of the unprecedented 1974 cost increases, and this factor may be taken into account in establishing future price structures.

8.5 Dominion Foundries and Steel, Limited (Dofasco)

The steel production facilities of the company are located in the city of Hamilton where, in addition to four blast furnaces, coke ovens, three oxygen furnaces, and several electric furnaces, the company owns and operates hot and cold rolling mills, galvanizing and tinning lines and other processing and support facilities. The company has an annual steelmaking capacity of 3.2 million tons.

In these facilities the company produces the following primary steel products:

Hot rolled sheet, coil, strip and steel plate

Skelp

Tin plate

Black plate

Cold rolled sheet and strip

Galvanized sheet, coil and strip

Electrical steel

Vitreous enamelling sheet

Through subsidiaries, Dofasco produces railway rolling stock (National Steel Car Corporation, Limited); pipe and hollow structural sections for oil, agricultural and industrial uses (Prudential Steel Ltd., Calgary); pre-painted steel (Baycoat Limited, in which Dofasco has a 50% interest); and large diameter pipe (International Portable Pipe Mills Ltd. in which Dofasco holds a 45.1% interest).

Raw materials

Dofasco presently has the following ownership interests in three iron ore mines:

The Adams Mine in Kirkland Lake, Ontario, 100%;

The Sherman Mine in Temagami, Ontario, 90%;

The Wabush Mine, Newfoundland, 16.4%.

The latter two mines are operated under joint ventures with others and The Adams Mine is operated as a division of Dofasco. Approximately three million tons of the estimated 1974 iron ore requirement of 3.7 million tons are expected to be provided from these sources. It is estimated that approximately 94% of the 1975 iron ore requirements will come from these three sources. Coal of the type and quality generally referred to in the industry as metallurgical coal (being the source of coke) is a vital ingredient in the process whereby steel is produced from iron ore. Dofasco's total consumption of metallurgical coal in 1974 is expected to be approximately 2 million net tons. Of this amount about 18% will come from the Itmann Coal Company, West Virginia, in which Dofasco has a 9% ownership interest. The balance of the coal requirements come from arm's length suppliers under certain contractual and other long standing supply agreements and arrangements. The company's wholly owned subsidiary, Beachville Lime Limited, provides most of the requirements of lime and limestone.

8.5.1 Price Increases

Dofasco introduced price increases with respect to the foregoing products after 22nd May, 1974 as shown in Table 21.

The price increases relating to the lines indicated in the table affect all of the primary iron and steel output of Dofasco.

The effect on sales revenue of *all* 1974 price increases, including those prior to 22nd May, 1974(a) has been calculated on two bases:

- Basis (i) The additional sales revenue expected to be generated in the balance of fiscal 1974 from all price increases (both primary and non-primary products) based on projected sales volumes for individual product categories from the date of increase to 31st December, 1974.

(a) As it is impracticable to allocate precisely all cost increases between primary and non-primary products and to ascertain cost increases before and after a given date when sales prices have increased (i.e., 22nd May, 1974), the effect of all sales price increases in 1974 has been calculated to permit a later comparison with the effect of all 1974 cost increases.

TABLE 21

Dofasco Price Changes

(\$/Net Ton)

PRODUCTS	Base Price at 22 May, 1974	3 June, 1974		2 August, 1974		6 August, 1974		2 September, 1974		9 September, 1974		1 October, 1974	
		New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change
Plate.....	\$157.00			\$174.00	10.8								
Checker Plate.....	167.00			186.00	11.4								
Hot Roll Skelp.....	147.00			161.00	9.5								
Cold Roll Sheet.....	200.00							\$215.00	7.5				
Cold Roll Strip.....	243.00							263.00	8.2				
Cold Roll Vitreous.....	216.00							231.00	6.9				
Cold Roll Blued.....	229.00							252.00	10.0				
Hot Rolled Strip in Coils over 6" to 8" wide.....	176.00											\$188.00	6.8
Hot Rolled Sheet in Coils 36" to 60" wide.....	166.00											178.00	7.2
ELECTRICAL STEEL													
NON-ORIENTED													
Laminex A.....	231.00					\$251.00	8.7						
Laminex B.....	215.00					235.00	9.3						
M45SP.....	280.00			310.00	10.7								
M43SP.....	299.00			329.00	10.0								
M36SP.....	320.00			350.00	9.3								
M27SP.....	335.00			365.00	9.0								
M22SP.....	356.00			386.00	8.4								
M19FP.....	396.00			426.00	7.6								
M17FP.....	406.00			436.00	7.4								
M15FP.....	422.00			452.00	7.1								

TABLE 21

Dofasco Price Changes

(Continued)

PRODUCTS	Base Price at 22 May, 1974	3 June, 1974		2 August, 1974		6 August, 1974		2 September, 1974		9 September, 1974		1 October, 1974	
		New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change	New Base Price	% Change
ELECTRICAL STEEL													
ORIENTED													
M6.....	\$527.00			\$597.00	13.3								
M5.....	546.00			616.00	12.8								
M4.....	563.00			633.00	12.4								
M3.....	562.00			632.00	12.5								
TIN MILL PRODUCTS													
SINGLE REDUCED, coils 29"-33½" wide...													
Electrolytic Tin Plate (.25 lb. coating).....	394.55											\$434.55	10.1
Electrolytic Chrome Plate	367.27											403.64	9.9
Tin Mill Black Plate.....	345.45											374.54	8.4
DOUBLE REDUCED, coils 29" wide.....													
Electrolytic Tin Plate (.25 lb. coating).....	350.91											380.00	8.3
Electrolytic Chrome Plate	323.64											349.09	7.9
Tin Mill Black Plate.....	301.82											320.00	6.0
GALVANIZED PRODUCTS													
Galvanized Premier in coils 36"-42" wide....	252.00	\$256.20	1.7					\$260.40	1.7			275.00	5.6
Galvanized Culvert in coils 27½" wide.....	216.00	218.00	0.9					220.00	0.9			235.00	6.8
Galvanized Satin Coat in coils 36"-42" wide....	244.00	247.20	1.3					250.40	1.3(a)			265.00	5.8
PIG IRON.....	88.00									\$102.00	15.9		
(a) This price was actually in effect on 1st September, 1974.													

(a) This price was actually in effect on 1st September, 1974.

Basis (ii) The additional sales revenue that would be generated had the latest level of sales prices (for all products) been in effect for the entire 1974 fiscal year, based on actual volume of sales for the first six months and estimated volume for the last six months.

On basis (i) total sales revenue for 1974, when compared with sales revenue for 1974 quantities at 1973 average selling prices, shows a 15% increase. For basis (ii) total sales revenue for 1974 over sales revenue for 1974 quantities at 1973 average selling prices shows a 23% increase. The sales dollars generated on both these bases are compared later in this report with cost increases on similar bases.

8.5.2 Cost increases

At the time of its appearance before the Inquiry in August, a projection was prepared by the company of 1974 raw material, labour and other costs using actual figures for the first six months and estimated quantities at known prices for the last six months of the year. To ascertain the impact of cost increases, the quantities used in this projection were then applied to the average 1973 costs for materials, labour and other elements.

Materials

For the major raw material items and for all raw materials and fuels the first column of the following table shows the percentage increase of raw material unit costs as forecast for 1974 when compared with actual unit costs for 1973. As a further indication of the rapid acceleration of certain raw material costs the second column in the table shows the percentage increase over actual 1973 unit costs of the latest costs incurred (approximately the level of costs in September 1974).

TABLE 22
Dofasco Percentage Increase of Unit Costs

	Percentage increase of unit costs	
	1974 forecast to 1973 actual	1974 latest costs to 1973 actual
* Iron ore and pellets.....	14%	36%
* Coal.....	48	92
Scrap.....	94	112
Zinc.....	54	71
Ingot moulds.....	25	40
Tin.....	59	98
Fuel Oil.....	76	125
All raw materials and fuels.....	34	58

*At market prices.

NOTE: When these percentages are compared to those of the other companies in this Chapter 8, reference should be made to the comments in section 8.2.4.

Details of certain of these cost increases are as follows:

Iron ore and pellets

The charge to the steelmaking operations for iron ore and pellets is based on the current market price for this raw material. Since a substantial portion of iron ore originates in properties in which the company has an ownership interest, the excess of the market price over the cost of producing this ore accrues to the company as mining income in relation to its ownership interest. Mining income (which is discussed in section 8.2.3 above) is not included in the calculation of steelmaking costs. Had the estimates of 1974 iron ore mining income been used to reduce the material costs in the above table, the percentage increase for iron ore in the 1974 forecast would have been reduced from 14% to approximately 9% and the percentage increase of the total cost of raw materials and fuels would have been reduced from 34% to approximately 32%. There is no material amount of inter-company profit involved in any of the other material prices for Dofasco.

Coal

As an indication of the substantial increase in the cost of metallurgical coal in 1974, the inventory value of one of the major classes of coal at 31st December, 1973 was approximately \$20.50 per ton (representing the average delivered cost per ton in 1973 including the opening inventory) and the cost of this same class of coal in 1974 was forecast to be approximately \$37 per ton. Taking into account the opening inventory, the forecast charge to operations for 1974 for this particular class of coal would be about \$32 a ton. However, subsequent to the preparation of the 1974 forecast a further price increase resulted in a laid down cost of approximately \$42 a ton for the latter part of 1974. Thus in 1974 there has already been an increase in the cost of one class of coal of more than 100% compared to the costs incurred for coal in 1973.

Scrap

The average price of scrap purchased in conventional form in 1973 was \$38.75 per ton and for the first six months of 1974 the average cost of scrap purchases was approximately \$82 a ton with an estimate for the last six months of 1974 about \$10 higher. Other sources of purchased scrap have not increased by comparable amounts so that the overall percentage increase in scrap costs was somewhat lower than the amounts noted above.

It should also be borne in mind that all steelmakers do not purchase like quantities of scrap for their respective steelmaking operations by reason either of the particular process involved or the amount of scrap generated internally in their primary and secondary manufacturing operations.

Zinc

The average cost of zinc in 1973 was approximately \$22 per hundred-weight and has increased to an average of \$30 in the first six months of 1974 with the August price rising to \$37.50.

Tin

For 1973 the average cost of tin was \$1.96 a pound and the average cost used in the 1974 forecast is \$3.12 for the year. However, a recent purchase was at a cost of \$4.05 per pound.

Fuel oil

The cost in the first six months of 1974 increased by approximately 31% over 1973 average cost. The estimated cost for the second half of 1974 is approximately 120% above the average 1973 cost. This higher cost level will, of course, be reflected in future periods should the unit cost of fuel oil remain at the same price.

Wages

The percentage increase in wages, salaries, fringe benefits and profit sharing arrived at by comparing 1974 projected quantities at both 1974 forecasted and 1973 actual prices is 15.3% and reflects all increases including the estimated cost of the new incentive bonus scheme introduced in 1974 retro-active to 1st January of this year.

8.5.3 Historical profit ratios

The following are the historical consolidated profit ratios for the period 1961 to 1973, inclusive, and for the first three quarters of the 1974 fiscal year:

TABLE 23
Dofasco Historical Consolidated Profit Ratios

	Income as a percent of sales		Return on equity	Return on investment
	Before tax	After tax		
1961.....	22.3	10.6	15.5	8.7
1962.....	20.2	9.9	15.3	9.3
1963.....	23.0	11.1	15.4	9.9
1964.....	21.4	10.3	16.3	10.0
1965.....	19.9	9.5	15.5	8.9
1966.....	17.1	9.1	13.4	7.1
1967.....	15.1	9.3	12.4	6.3
1968.....	17.8	13.7	17.8	9.3
1969.....	19.2	12.6	17.2	10.0
1970.....	14.9	10.0	12.2	7.4
1971.....	11.7	7.4	9.7	5.5
1972.....	13.9	8.1	11.9	6.6
1973.....	16.3	10.1	15.8	9.4
1974 Quarters			}	(a) (a)
—first.....	17.1	10.7		
—second.....	14.9	9.5		
—third.....	13.3	8.7		
—9 months to 30th September	15.0	9.6		

(a) Calculations not usually made at interim dates.

The four major product categories (accounting for over 50% of primary product sales in 1973) and all primary products show indexed gross profit margins^(a) (1961 = 100) as follows:

TABLE 24
Dofasco Indexed Gross Profit Margins

	Product				All primary products
	A	B	C	D	
1961.....	100	100	100	100	100
1962.....	101	83	99	102	97
1963.....	109	96	102	113	102
1964.....	115	109	100	111	101
1965.....	110	113	100	112	101
1966.....	100	99	99	110	97
1967.....	102	95	91	100	92
1968.....	106	97	93	102	94
1969.....	107	109	92	105	97
1970.....	97	89	80	97	86
1971.....	90	94	74	88	83
1972.....	97	97	76	90	84
1973.....	106	106	76	92	88
1974 first half...	103	96	79	97	86

No significant change in the trends of product gross profit margins in the period 1961 to 1973 would have resulted from the inclusion of mining income but the individual product gross profit margins would have been slightly higher than those indicated in the table. Had mining income been credited to costs entering into the gross profit calculation for "all primary products" for the first half of 1974 the gross profit index of 86 would have been about 89.

8.5.4 1974 Profit Margins

The Table on page 81 indicates that 1974 income as a percent of sales by quarters has fluctuated around the 1973 level, but the 9 months' percentage is below that for 1973 and substantially below the levels reached in some earlier years. Assuming income for the fourth quarter, because of the full impact of price increases introduced in the third quarter, is somewhat ahead of that of the third quarter, the income/sales ratios for the full 1974 year will still be well within the range of these ratios historically.

(a) For Dofasco gross profit margins are defined as the ratio of sales revenue, less all costs except depreciation, administration and selling, employee profit sharing, interest on long term debt, taxes and certain manufacturing costs (which are not usually allocated to products and that would not have a material effect on the margins if allocated), to sales revenue. Mining income, investment income and subsidiary results are not included at this level of profit calculation.

With reference to the Table on page 82, the gross profit margins by products in the first six months of 1974 did not feel the full impact of major cost increases of raw materials that occurred during that six months as a result of raw material inventories on hand at the beginning of the period acquired at a lower cost. For example, in the month of July, before implementation of price increases, the gross profit margin (indiced) on Product A decreased to 99, on Product B to 89, and on all primary products to 80.

On 29th October, 1974, Dofasco published financial information with reference to the three and nine month periods ending 30th September, 1974 as compared to the same periods in 1973 and the following is extracted therefrom:

TABLE 25

Comparative Third Quarter Statements for Dofasco

	Three Months Ended 30th September		Nine Months Ended 30th September	
	1974	1973	1974	1973
	(dollars in thousands)			
Sales.....	\$172,000	\$112,800	\$503,100	\$377,200
Depreciation.....	9,000	9,400	26,300	26,400
Income before income taxes.....	22,800	18,500	75,700	59,800
Income taxes.....	7,900	6,800	27,400	22,400
Net income.....	14,900	11,700	48,300	37,400

As will be seen from the above Table, earnings for the nine month period have increased about 29% while the increase in the third quarter itself was about 27% as compared to 1973 periods. These 1974 figures include significant increases in earnings of subsidiaries not engaged in the production of primary iron and steel products and also include inventory profits. The discussion of inventory profits in Section 8.3.4 in the case of Stelco, applies as well to Dofasco. Expressed as a percentage of sales, profits in the third quarter have dropped from 10.4% in 1973 to 8.7% in 1974 and for the nine months from 9.9% in 1973 to 9.6% in 1974.

As we have stated with reference to the other major producers, calculations of ROE and ROI are not ordinarily made at the end of interim periods. Nevertheless projections of annual ROE and ROI for Dofasco, based on nine months actual results but assuming an increase in income in the fourth quarter over the third quarter as a result of the impact of the third quarter price increases, indicate that these profit measurements will exceed those for 1973 and will approximate the highest levels achieved since the early 1960's. Again it must be observed that these income projections include substantial inventory profits. It follows that without these inventory profits, arising from cost accelerations during the year, the projected ROE and ROI would be well within income ranges of the 1960's.

8.5.5 Effect of 1974 cost and price increases

As noted on pages 76 and 79 of this report, the company has prepared estimates of the impact of cost and price increases on the results for the 1974 fiscal year. In addition, at the request of the Inquiry, a hypothetical forecast was prepared (and referred to as the "annualized forecast") based on the most recent level of costs and prices as follows:

- (A) Sales revenue for all products was calculated using the price schedule in existence after the price increases implemented or announced as of 19th September, as noted above, applied to 1974 sales volume (based on the first six months actual and the last six months forecast), and
- (B) Costs and expenses were calculated using the latest known level of costs (at about the middle of September) applied to the 1974 volume of raw materials and other cost components (based on the first six months actual and the last six months forecast).

On the "annualized forecast" basis the increase in sales revenue that would be realized on estimated 1974 volume (when compared with a similar volume at average 1973 selling prices) would be slightly less than the increase in cost and expenses calculated on a full year basis at latest cost levels. If the cost increase was reduced by the additional mining income generated, the costs would be somewhat less than but still within 10% of the increased revenue.

On the 1974 fiscal year forecast basis the increase in sales revenue for 1974 resulting from all price increases in 1974, applied from the time of the increases, would fall slightly short of recovering the increases in costs and expenses in the same period. If the increase in costs and expenses were reduced by the additional mining income, the resulting cost and expense increase would closely approximate the sales revenue increase.

Cautionary Remarks

Again, reference should be made to page 61 above, as the comments made there relating to Stelco apply equally in this part of the report, with respect to Dofasco.

8.5.6 Conclusions

Finally to revert to the tests applied throughout this analysis and mentioned above, the annualized net income prepared for the Inquiry staff (but not, for reasons already noted, published in this report) does not reveal the existence of profit margins greater than those customarily found in the accounting history of Dofasco. Similarly the annualized net income, when expressed in terms of a percentage of annualized sales, does not produce a ratio out of line with historic ratios for this company and by this additional test one must conclude that the profit margins currently prevailing in Dofasco accounts are not greater than "customarily earned" in the past.

Pinpoint cost and price comparisons are misleading. The matching of prices and costs is a dynamic process in which price adjustments occur

periodically. The frequency of price increases is regulated by many forces including the desirability of stability in relationships with customers. Consequently time lags sometimes occur between cost increases and recovery by price adjustments. We have observed an instance in Dofasco's case where the annualized forecast of sales revenues will slightly exceed the annualized forecast of costs. This variation is minimal and it should be pointed out once again that it is apparent from an analysis of the company's accounts that costs taken as a group do not move from one stable plateau to another, but are constantly in change, likewise the inventory costs are constantly altering as new purchases push up the average cost of materials already in inventory.

As ROE and ROI for 1974 are expected to approach the highest levels reached in the past 15 years, future price increases by this company should operate as a cost-increase recovery mechanism which will pass through to its customers cost increases actually incurred. The company is entitled in establishing future price structures to take into account where appropriate to do so, the presence of significant inventory profits in 1974 income.

Therefore we have determined that profit margins revealed in the accounts of Dofasco when tested in terms of (a) individual product gross profit margins, (b) income before and after taxes as a percentage of sales, (c) ROI, and (d) ROE, are not greater than "customarily obtain" in connection with the sale of primary steel products, either in the annals of Dofasco itself or with reference to steel industry levels generally.

Provincially Owned Steelmakers

There are three steel producers in which Provincial Governments have ownership interests as follows:

<u>Company</u>	<u>Province</u>	<u>Interest</u>
Sysco	Nova Scotia	100%
Sidbec-Dosco	Quebec	100%
Ipsco	Alberta and Saskatchewan	20% each

This chapter deals with the two wholly provincially-owned companies. Ipsco is discussed mainly in Chapter 10.

9.1 *Sydney Steel Corporation (Sysco)*

In 1967 Sysco was incorporated by special Act of the Legislature of Nova Scotia for the purpose of acquiring and operating the steelmaking plant and associated facilities of Dominion Steel and Coal Corporation at Sydney, Nova Scotia, which company had announced its intention to close down its entire operation at Sydney. The plant so acquired and since operated by Sysco consists of two blast furnaces and five open hearth furnaces with an annual steel-making capacity of 1 million tons of raw steel, rolling mills, and associated dock and transport facilities. The various components of the plant were built between 1905 and 1953.

The company produces its limestone requirements through a wholly-owned subsidiary and purchases its coal on the market in West Virginia (20%) and from the Cape Breton Development Corporation (80%), which is a Canadian Crown Corporation. Iron ore is purchased from mines in Northern Quebec and Labrador. Scrap steel is used in the Sysco steelmaking process and is purchased by Sysco in the Atlantic Provinces or is self-generated. Twenty-nine percent of the total semi-finished and finished products are exported.

Since Sysco is for all practical purposes an integrated producer, it has experienced the same sharp upswing of costs in the past year as already described in Chapter 8 in the case of the major integrated producers.

The company is presently rehabilitating its rolling mills and in conjunction with government is studying a complete replacement and re-equipping of its plant. Current production is about 800,000 tons of raw steel annually. The company produces and sells steel in the form of rails and tie plates (34.5% of production), reinforcing bars (7%), ingots, blooms and billets (58.5%). Sysco supplies ingots, blooms and billets to other rolling mills, principally in Canada.

Sysco is not a price setter in the industry. With reference to its semi-finished products, the price must conform approximately to the cost of production of ingots, blooms and billets in the mills of the customer supplied. Rail prices are negotiated competitively with reference to alternative sources of supply, namely, Algoma domestically, and European and Japanese rails externally. In this connection, it may be observed that Sysco supplies generally the rail requirements of Canadian National Railways, and Algoma supplies rails to Canadian Pacific Railways, by whom it is now controlled.

In the fiscal year ended 31st March, 1973, Sysco suffered a loss of \$13.6 million, and in the 1974 fiscal year, a loss of \$24 million. Sysco makes public its financial information by filing an annual report in the Provincial Legislature.

TABLE 26
Base Price Increases

Product	Base Price at 22 May 1974	1 July 1974		1 October 1974	
		New Base Price	% Change	New Base Price	% Change
Domestic Billets.....	\$140	\$165	17.9		
Rails.....	182	207	13.7	\$222	7.2
Tie-plates.....	210	235	11.9	250	6.4

From confidential information filed by the company it is apparent that losses are incurred in respect of many of the individual products sold by the company and this must indeed be apparent from the magnitude of company losses from public statements.

Conclusion

It is quite apparent that Sysco, by increasing its prices as it did in July and October, is doing no more than passing on to its customers its 1974 materials cost increases. The magnitude of corporate losses in the last few years indicates the complete impossibility of Sysco absorbing these cost increases. The company recognizes its competitive disadvantages in the steel market and is accordingly conducting studies for the reconstruction and expansion of facilities required to allow it to produce and sell steel profitably at competitive prices. The price increases have not and cannot result in profits greater than "customarily" obtained by this company.

9.2 Sidbec-Dosco Limitée (Sidbec)

Sidbec is a provincially incorporated company, all the shares of which are held by the Province of Quebec. Sidbec operates through wholly owned subsidiaries, one of which, Sidbec-Dosco Limitée (herein referred to as Sidbec), is a primary iron and steel producer. Sidbec makes public its financial information by the filing of an annual report in the National Assembly of Quebec.

The company commenced operations in 1968 when it acquired the shares of Dominion Steel and Coal Corporation. It presently operates five electric

furnaces with a total annual capacity of one million tons of raw steel, hot and cold rolling mill facilities, a tube mill and fabricating facilities, all of which are located in the Province of Quebec. In addition Sidbec operates a wire plant in Etobicoke, Ontario.

The Company augments its supply of raw steel for rolling mill operations by purchasing ingots, blooms and billets from Sysco and by purchasing ingots from the Canadian Steel Wheel division of Hawker Siddeley Canada Limited. The amount purchased from the latter company is over and above its internal requirements for the production of secondary steel products that are not within the terms of reference of this Inquiry.

Initially Sidbec produced its steel entirely from scrap purchased in Quebec and Ontario. Because Quebec is deficient in scrap, the company established facilities for the production of iron pellets, which replace some of the scrap formerly used. The electric furnaces are now fed iron pellets and scrap in a variable ratio but are still heavily dependent on scrap. The scrap still required is purchased in the Provinces of Quebec and Ontario and the United States.

Products

The company produces the following primary iron and steel products: bars, structurals, hot and cold rolled flat products, and reinforcing bars. These products represent 70% of the company's sales volume, the balance being secondary and tertiary steel products.

Sidbec, since its inception, has reported annual losses which have been declining to the level of the 1973 loss of \$6.7 million. Accumulated losses amounted to some \$27 million.

Price Increases

<u>Product</u>	<u>Date</u>	<u>Dollar Increase</u>	<u>Percentage Increase</u>
Reinforcing Steel	3 June 1974	\$22	14.8%
Hot rolled sheet	7 October 1974	14	8.4
Cold rolled sheet	7 October 1974	16	8.0

A scrap surcharge was inaugurated in respect of reinforcing bars on 1st December, 1973 and then broadened to certain other primary products on 28th January, 1974. It has fluctuated from \$15 a ton in the case of merchant bars and structurals to \$55 a ton for those products and reinforcing bars in July of 1974. The scrap surcharge was decreased after 22nd May, 1974 in respect of all products by \$10 per ton and subsequently increased by a like amount in July.

For its presentation to this Inquiry, Sidbec submitted the following base price comparison between its products and those of comparable United States producers. Because the exchange variation is small Sidbec prices are expressed in Canadian dollars while the U.S. prices are expressed in the currency of that country.

TABLE 27

Sidbec and U.S. Price Comparisons

(Dollars Per Hundred Pounds)

<u>Product</u>	<u>Sidbec Price</u>		<u>U.S. Price</u>	
	<u>Date</u>	<u>Price</u>	<u>Date</u>	<u>Price</u>
Hot rolled plate.....	11 March 1974	\$8.30	3 May 1974	\$9.55
Merchant bar.....	21 May 1974	9.65	18 June 1974	10.75
Reinforcing bar.....	3 June 1974	8.55	3 May 1974	10.70

Cost Increases

The company has furnished the Inquiry with confidential information concerning cost increases, the principal item being the cost of scrap. This cost increase is common to all electric furnace operations. The cost of scrap f.o.b. Hamilton was \$60 a ton in early 1974, and by the month of August this cost had risen to \$100 a ton. The 1973 average cost per ton paid by the company was \$48.

The company indicated significant expansion plans in the years 1974 to 1977, which plans are predicated on the availability of capital, and on the prospect of a reasonable return on capital.

Conclusion

The Sidbec operations, since inception, have operated at a substantial loss. Current accounting information indicates that operations may shortly become profitable. The price increases introduced since 1 May, 1974 were dictated by demonstrated cost increases. Even if these increases by themselves moved the company into a profitable position, it could hardly be maintained that such a profit, without any consideration to its extent, was greater than would "customarily" be obtained by the company or by the industry. There is no indication that these price increases will by themselves produce a profit margin let alone a profit margin of the proportion described in the Order in Council.

Electric Furnace Steelmakers

10.1 General Description

The electric furnace group (some of which are referred to as minimills) includes six companies all of whom produce steel in electric arc furnaces from steel scrap. The following table includes all these steelmaking operations and indicates their location and extent of their operations:

<u>Company</u>	<u>Principal Location</u>	<u>Capacity (tons)</u>
Interprovincial Steel and Pipe Corporation Ltd. (Ipsco)	Regina, Saskatchewan	600,000
Manitoba Rolling Mills, a division of Dominion Bridge Company, Limited (MRM)	Selkirk, Manitoba	197,000
Burlington Steel, a division of Slater Steel Industries Limited	Hamilton, Ontario	250,000
Atlas Steels Company, a division of Rio Algom Mines Limited	Welland, Ontario	84,000
Lake Ontario Steel Company Limited (Lasco)	Whitby, Ontario	330,000
Western Canada Steel Limited	Vancouver, B.C.	160,000

It is estimated that the electric furnace group will account for 1.6 million tons of the 11 company capacity total of 15.7 million tons in 1974 (2.6 million tons if Sidbec is included as an electric furnace producer).

These producers make steel entirely from steel scrap which is either internally generated in their primary and secondary manufacturing operations or is purchased. Purchased scrap is generally acquired by the producer in its immediate area, but the mills located in Western Canada are dependent to a significant extent on United States sources for their scrap. Since the cost of scrap represents about 40-50% of the cost of making steel in electric furnaces, fluctuation in the price of scrap steel has a serious and direct effect on the cost of a ton of steel produced in these steel mills.

Generally speaking about 75% of the increased costs of these producers in the past year has been caused by the sharp rise in the price of scrap steel. The evidence indicates that the price of scrap fluctuates with the demand for steel and in times of steel shortages, as we are presently experiencing, the price of scrap rises dramatically. To meet this development these mills followed a practice which arose in the United States of adding a scrap surcharge to their base price for steel products. This practice commenced in late 1973 and is

something new to the Canadian steel industry. Invariably the witnesses before the Inquiry anticipated that the scrap surcharge would disappear with the end of the steel shortage.

A chart presented by MRM and attached hereto as Appendix "T" illustrates the sharp increase in scrap prices which has been experienced by the steelmakers in the electric furnace group.

Electric furnace producers have some advantages over the integrated major steel producers. Their raw material being scrap instead of iron ore, the mill can locate closer to the steel market, assuming the availability of adequate electric power. No coal is consumed in the process and therefore this branch of the industry has not been directly affected by the sharp increase in the price of metallurgical coal. On the other hand, this group is extremely vulnerable both to the fluctuations in the price of scrap steel and its availability.

The role of the electric furnace in the Canadian steel industry has been described in a general way in Chapter 5. The economics of the individual operations, six in number, will be discussed in more detail in this Chapter. This operation is, of course, built around the electric arc furnace which melts scrap by electricity and produces steel for casting into ingots, for rolling into forms in a rolling mill in the same way as steel produced by the open hearth or basic oxygen furnace. Typical of an electric operation is that of Lasco. It has a steelmaking capacity of about 330,000 annual finished tons or a somewhat greater capacity in terms of raw steel. When this plant was established about a decade ago, the appropriate size of electric furnaces was 100,000 tons annual capacity, representing an investment of about \$100 an annual ton or \$10 million.

The President of Lasco, Mr. W. W. Winspear, testified that a new electric plant today to be economically feasible would require a furnace capacity of at least 250,000 tons annually, the cost of which is now about \$350 per annual ton or \$87.5 million. In the terms of shareholder investment he stated the \$4 million required as equity capital from shareholders 10 years ago would now equate to about \$52 million shareholders' investment today. Even in the case of electric furnace production, steelmaking is a highly capital intensive undertaking. This has a direct bearing on profit margin analysis.

The electric furnace group generally took the view before this Inquiry that in an industry with the characteristics of the steel industry a reasonable return would be 10 percent on investment and 15 percent on shareholders' equity. The pricing philosophy of the electric group is not, however, calculated directly with reference to computations of returns but rather is based on the price scales of the major integrated steel producers. Thus, when Stelco raised its prices in May, the electric group adopted precisely the same increases at varying times in May and June. The rationale of this philosophy is that the electrics strive to survive and prosper by matching or exceeding the efficiency of the major producers by their own special but limited production technique.

Because of their relatively small capacity and the limitation of their source material, scrap metal, the electric group can hardly be said to be in a position to be price leaders. The general concern expressed by this branch of the industry was the growing scarcity of scrap metal and the vulnerability of the electric group in the event the price of scrap does not fall back to previous levels when the steel shortage disappears.

The only deviation from this price leadership doctrine is the imposition by the electric furnace group of the scrap surcharge. Beginning in May 1973 the price of scrap steel began to rise sharply and scarcities began to develop. The electric furnace producers absorbed these increases until late 1973 when one by one they added to their base price a scrap surcharge which fluctuated somewhat according to the price of scrap. The total cost of steel to the purchaser from a minimill therefore is the base price schedule (which is based upon the major steel producers' prices) together with the scrap surcharge. To understand the impact of the surcharge, one must realize that in times of steel shortage the customer is grateful to receive any steel, with or without surcharge.

Those producers in this group situated in Western Canada generally adopt as their pricing formula a Hamilton base price plus freight to the destination of their customer, or to their principal mill. Thus when Stelco (and in recent months Algoma) raised their price level the electrics followed almost automatically. It is apparent at once that these producers (a) have raised their prices indirectly because of the sharp advance in the price of coal to the integrated producers, and (b) generally vary their price schedule to reflect freight rates. This latter characteristic is not of the same significance in the case of the three Ontario based electric producers.

The electric group would appear to be operating at about the capacity ceiling for this branch of steelmaking by reason of the natural limitations on the supply of the basic raw material, scrap. This is particularly so because of the present United States embargo on scrap export which effectively freezes exports to Canada at present levels.

The next plateau of technology open to the electric group is that recently entered upon by Sidbec. This will allow the electric furnace producers to transfer some of their dependence from scrap metal to sponge pellets which are iron ore pellets after reduction by a natural gas process. This will, of course, involve a very considerable capital investment which in turn will in effect move the "minimill" industry into the general neighbourhood of the major integrated steel producers when measured by degrees of capital intensity.

The analysis of some of these companies is more difficult than in the case of the integrated steelmakers. Only one (Ipsco) is a public company whose financial information is published quarterly. Three are divisions of public companies but no accounting for the steelmaking division is published to shareholders or is part of a public record anywhere. Two (Lasco and Western Canada Steel) are private companies whose financial information is not published and

is not a matter of public record. We have analyzed a considerable volume of confidential information made available to us by each of these producers and the comments on each producer which follow in this Chapter are based partly on the public submissions to the Inquiry but substantially on the confidential information received and the accounting examinations conducted by the Inquiry.

The electric branch of the industry, accounting as it does for about 15 percent of the steel output and living as it does on the availability of scrap, cannot in fact play the role of the price leader in the industry. It will be seen in the analysis of each company that follows in this Chapter that price changes have uniformly come about by reason of the change in price structure of the major integrated producers. It follows that profit margins in the electric branch of the industry will fluctuate widely, at times being above and at other times below the level of the integrated producers and consequently these profit margins cannot be scaled "according to what is customary" in the major producers' accounts. Were this not so, the electric furnace producers would at times be required to sell their output below the general market level while at other times they might be unable to meet the general market level because of then prevailing scrap prices. As will be seen in the following analyses, the same tests are not applied to these producers as in the case of the integrated producers but we have been able to establish profit margins which customarily obtain in this branch of the industry in order to test current profit margins.

10.2 *Interprovincial Steel and Pipe Corporation Ltd. (Ipsco)*

Ipsco is a public company, the shareholdings of which are held as follows:

Province of Saskatchewan	20.1%
Province of Alberta	20.1%
Slater Steel Industries Limited	20.1%
General public	39.7%

Ipsco produces steel at its main plant in Regina and has the following additional facilities for primary and secondary products:

Regina	
Steel plant	4 electric arc furnaces with a capacity of 600,000 tons per year, rolling mills capable of producing skelp and coiled steel and a cut-to-length line
Pipe mills	3 spiral weld and 2 ERW mills
Edmonton	1 spiral weld and 1 ERW pipe mill
Port Moody	2 ERW pipe mills
Vancouver	a cut-to-length line
Calgary	
(acquired in October, 1974)	1 longitudinal pipe mill

At these facilities the company is capable of producing the following products:

- ERW pipe up to 16" diameter.
- Spiral pipe up to 80" diameter.
- *Hot rolled sheet and plate.
- Oil well casing and tubing.
- Structural tubing.
- ERW and submerged arc-weld pipe from 18" to 42" diameter.
- Other secondary products.

*This is the only primary steel product produced by Ipsco.

These products are sold primarily in the four Western Provinces and secondly to Eastern Canada and the United States. Most of the output of the secondary plants in British Columbia is processed from steel imported from Japan.

All steel is produced by the electric furnace process from scrap which is obtained in the three Prairie Provinces and from the Northern United States and the Chicago area. Scrap is purchased through a variety of arrangements including through 750 elevator agents in Saskatchewan, from sources in the United States, and shortly from an automobile shredding plant of the Province of Saskatchewan.

The company's expansion plans provide for the increase of steelmaking capacity to 1,000,000 tons, utilizing sponge iron pellets produced by a natural gas reduction process based upon iron ore purchased in Northwest Ontario.

Price Increases

On 1st April and 17th June, 1974, the company increased prices on its only primary iron and steel product as follows:

TABLE 28
Ipsco Primary Products Price Increases

	<u>1 April, 1974</u>	<u>17 June, 1974</u>
Hot Rolled Sheet and Plate.....	26.5%*	6.5%

* Includes a scrap surcharge of \$45 per ton.

After giving effect to these increases, the average selling price of these products in August 1974 was \$261 per ton. It should be emphasized that this Inquiry, being only concerned with primary iron and steel products, is only directly involved in price increases relating to hot rolled sheet and plate. The sales division of the company for these products is Lambton Steel Ltd. which also sells Japanese made steel.

In common with a practice adopted by a number of electric furnace steel-makers in both Canada and the United States, Ipsco introduced a scrap sur-

charge on 1st April, 1974 amounting to \$45 per ton. The importance of the cost and availability of scrap steel to electric furnace operations and the impact thereon of price fluctuations of scrap are discussed in section 10.1.

In testimony before the Inquiry, company officials explained that Ipsco price increases are not the product of a calculation based on a return on investment or a desired recovery of gross or net profits with reference to sales, but the result of a policy whereby Ipsco prices were referenced to Stelco prices until early 1974 when Algoma prices became the reference base, plus freight to Regina and plus freight from Regina to destination. Thus the Ipsco base prices are Algoma prices plus freight from Sault Ste. Marie to Regina. Ipsco customers pay this base price plus freight from Regina together with the scrap surcharge.

The following table illustrates the impact of the Ipsco base point pricing system:

TABLE 29
Ipsco and Algoma Price Comparison^(a)
(\$ per cwt.)

Ipsco (b)

	<u>Base Price</u>	<u>Freight (truck)</u>	<u>Total</u>
Regina Mill.....	\$11.93		\$11.93
Calgary.....	11.93	\$.65	12.58
Edmonton.....	11.93	.70	12.63
Saskatoon.....	11.93	.37	12.30
Vancouver.....	11.93	1.35	13.28
Winnipeg.....	11.93	.49	12.42

Algoma

	<u>Base Price</u>	<u>Gauge and Width Extra</u>	<u>Quality Extra</u>	<u>Freight</u>	<u>Total</u>
Regina.....	\$8.60	\$1.15	\$.10	\$2.08	\$11.93
Calgary.....	8.60	1.15	.10	2.44	12.29
Edmonton....	8.60	1.15	.10	2.44	12.29
Saskatoon....	8.60	1.15	.10	2.27	12.12
Vancouver....	8.60	1.15	.10	2.07	11.92
Winnipeg.....	8.60	1.15	.10	1.44	11.29

(a) based on a sample of coiled mild steel ¼" x 48".

(b) excluding scrap surcharge.

SOURCE: Compiled from a table supplied by Ipsco.

Financial Review

The impact of the increases in price introduced by Ipsco shown above has been studied in the light of the consolidated profit ratios and other financial information mentioned below.

Consolidated profit ratios

The following table shows the consolidated profit ratios for the fiscal years ended 31st August, 1964 to 1973 and for the nine months to 31 May, 1974:

TABLE 30
Ipsco Consolidated Profit Ratios

	Income as a percent of sales		Return on equity ^(a)
	Before tax	After tax ^(a)	
1964.....	13.5%	13.5%	15.6%
1965.....	15.6	15.6	20.6
1966.....	19.8	19.8	19.1
1967.....	10.9	10.9	7.4
1968 (b).....	2.7	2.7	1.8
1969 (b).....	5.1	2.6	2.3
1970.....	13.0	6.6	7.4
1971.....	7.0	3.4	4.1
1972.....	15.5	8.0	14.1
1973.....	15.5	8.7	20.9
1974—nine months.....	20.9	11.7	(c)

(a) For the years prior to 1969 no provision was made for income taxes as no taxes were currently payable, and the provision of deferred taxes was not required by accounting principles prior to 1969.

(b) Years of severe price war.

(c) Calculation not usually made at interim dates.

The company has never considered return on investment a reasonable measure of profitability because much of its machinery was in used condition when acquired resulting in a relatively low investment base. Replacement of these assets would require expenditures many times the depreciated values now appearing in the financial statements.

In the year ended 31st August, 1974 approximately 22% of the company's consolidated sales were in hot rolled sheet and plate, with the balance of sales in non-primary products, mainly API pipe, oil and gas well casing and other tubular products.

About 45% of the sales of hot rolled sheet and plate were manufactured by the company with the remainder being accounted for by the purchase and resale of Japanese steel. Thus only about 60,000 tons of steel were sold as primary steel products or about 12% of the total steel products of the company.

The gross profit margins(a) on hot rolled products, both manufactured and imported, have ranged between 22% and 27% in the past 10 years and in the year ended 31st August, 1974 are within that range.

(a) As calculated before selling and administrative expenses, interest and income taxes.

The substantial consolidated profit increase for the first nine months of fiscal 1974(a) and the increase in profits both before and after tax as a percent of sales in the same period are basically attributable to products beyond the scope of this Inquiry and these form about 88% of the Ipsco steel production. Based on unaudited figures these profit trends have continued in the fourth fiscal quarter. The main factors in the profit improvement are:

- A. The full year effect in fiscal 1974 of the expansion in production facilities during fiscal 1973 including:
 - 1. the addition of a fourth electric arc furnace (which doubled melting capacity),
 - 2. a third spiral weld mill in Regina,
 - 3. the acquisition of the Edmonton plant, and
 - 4. the acquisition of the Port Moody plant,all of which were utilized for approximately the last five months of fiscal 1973 during which time the results of operations included the break-in costs for the new additions. In fiscal 1974 these newly acquired plants, which do not produce any primary iron and steel products, contributed approximately 75% of the growth in sales revenue with considerable improvement in profit margins over 1973.
- B. The substantial overall increase in sales revenue was attained without a corresponding percentage increase in selling and administration expenses and interest with a resulting improvement in profits and profit margins.
- C. The company realized normal profits from the sale in the form of structural products, of off-prime or rejected secondary products which theretofore were sold in bulk as non-prime material.

While Ipsco's accounts reveal a response to these price increases, as we have stated, the profit margins on primary iron and steel products have remained within historic tolerances both for this company and for like operations in the industry. The proper allocation to these primary steel products of general manufacturing costs has been made before measuring profit margins.

No doubt the geographic location of the company's principal plant and to a lesser extent its ancillary plants, allows Ipsco in times of shortages of steel to fare better than in times of adequate supply. This is also true because it is a typical electric furnace operation closely connected to its market region and able to ride up and down the roller-coaster of scrap costs, rising and falling as they do, more or less in parallel with supplies of competitive steel. Dependence upon scrap gleaned from the great central plain of Canada and the United States makes this operation somewhat more vulnerable to scrap price fluctuations than those comparable operations located closer to the ocean ports and thence to offshore scrap sources.

(a) Profits for the year ended 31st August, 1974 are still subject to audit and have not been released to the shareholders. For the nine months ended 31st May, 1974 net profits after taxes were \$11,054,030 as compared to \$4,664,561 for the first nine months of the 1973 fiscal year.

Conclusion

For all these reasons, we have concluded that Ipsco, as a result of the above price increases, is not realizing profit margins in respect of primary iron and steel products greater than those which customarily obtain in the history of Ipsco or the steel industry generally.

10.3 Manitoba Rolling Mills (MRM)

Manitoba Rolling Mills, a division of Dominion Bridge Company, Limited, operates a steelmaking facility at Selkirk, Manitoba consisting of two electric furnaces with an annual steelmaking capacity of 197,000 tons and continuous casting and rolling mill facilities producing 155,000 tons of hot rolled products per year. The primary products produced at these facilities are:

- Light structurals
- Merchant bars
- Reinforcing bars

MRM produces steel entirely from internally generated and purchased scrap. For many years scrap was purchased on the Prairies but with the arrival of Premier Steel in Edmonton (now Stelco) and Ipsco in Regina, which are both scrap consuming electric installations, MRM became dependent upon the North-Central United States for about half of its scrap requirements. Following the United States embargo on exports of scrap this dependence has fallen to one quarter.

The company is currently completing an expansion of rolling facilities which will increase its rolling capacity to 300,000 tons a year by September 1975, at which time further large expenditures will be necessary to increase the steelmaking capacity to something upwards of 300,000 tons a year to provide raw steel for the new rolling mill.

Following a \$10 per ton increase in the price of reinforcing bars on 1st February, 1974, MRM introduced a \$30 per ton price increase on all products effective 27th May, 1974, being an increase of about 16-18%. In common with the other electric furnace operators, the company had established a scrap surcharge of \$20 per ton on all products effective 4th February, 1974 and increased this surcharge to \$45 per ton on 18th March, 1974. After the increases of 27th May, 1974 and including the scrap surcharge MRM's prices were as follows:

Merchant bars	\$253/ton
Light structurals	254
Reinforcing bars	236

The senior officers of MRM, when testifying before the Inquiry, stated that in establishing steel prices no consideration was given to the fact that Algoma effectively controlled MRM. These officers stated that there was as much information regularly available to them in their pricing studies relating to both Stelco and Dofasco as to Algoma. Furthermore, MRM, being responsible for only 1½% of the raw steel production of the country, was in no position to be a price leader but rather followed industry levels so that the

principal influence of its pricing policies came from all three of the major integrated producers.

Financial Review

There is no separate disclosure of the financial results of MRM in the public reporting of Dominion Bridge Company, Limited. At its annual meeting in April, 1974 Dominion Bridge disclosed that 22% of its sales come from its steel manufacturing and distribution activities. The other operation contributing to the 22% of Dominion Bridge sales (1973—\$278,374,000) is its Steel Service Centre Division which does not manufacture steel. While the exact amount of MRM sales for 1973 has been supplied to the Inquiry in confidence, it is possible to determine, from the disclosure at the public hearing in Winnipeg on 18th September, 1974 of productive capacity and base selling prices, that the sales^(a) of MRM in 1973 were in the order of 10% of Dominion Bridge sales.

Because MRM is such a small percentage of the operations of Dominion Bridge, a review of the published financial statements of Dominion Bridge was of no use to the Inquiry. However the Inquiry was furnished, on a confidential basis, with the results of operations of MRM for a number of years. As the entire output of the company is primary steel products, the Inquiry did not consider it necessary to attempt a review of individual products but concentrated on the financial information of the division as a whole.

In public testimony it was stated “that net return on sales^(b) over that period (1960 to 1973) varies from a low of 2 percent in 1967 to a high of less than 12 percent in 1961”. In this fourteen-year period, in addition to the low of 2% and the high of nearly 12%, in four years the net return on sales was in the 4% to 5% range, in five years in the 7% to 8% range and in three years in the 9% to 10% range. Net return on sales for the six months ended 30th June, 1974 was slightly higher than for the same period in 1973.

The company further stated in a public hearing “although similar figures for net return on capital employed only became available after 1964, reference to the nine-year period preceding 1974 shows that return on capital^(c) has varied from a low of 2% in 1967 to a high of approximately 16% in 1965.” Including these years, four years show a return on capital in the 2% to 7% range and five years in the 11% to 16% range. In 1973, and 1974 to date, the returns are within the higher range, with a reduction expected for the whole year 1974 (which the company estimates will be 11.2%) when compared with 1973.

(a) While 40% to 50% of the sales of MRM are to other branches and divisions of Dominion Bridge, the internal selling prices are the same as to outside customers. It was also ascertained that in the preparation of MRM accounts a reasonable formula has been consistently applied in recent years for allocation of head office expenses to the various divisions.

(b) After tax earnings as a percent of sales revenue using a 50% tax rate for the years 1960 to 1972 inclusive and 43% for 1973 and 1974.

(c) After tax earnings (before any allowance for interest on debt of the MRM division) as a percent of average capital employed (the sum of current assets and net book value of fixed assets minus current liabilities).

Conclusion

It is obvious from the wide fluctuation in net return on sales and on capital employed that “customary margins” in this case must be a range of profit margins. While recent pre- and post-tax profits as a percent of sales are in the upper portion of the range, this is precisely what should be expected given the present general conditions of supply and demand in the industry and the operation of the plant at full capacity. Accordingly, nothing has come to the attention of the Inquiry that would indicate profit margins greater than customarily obtained in past years. Furthermore, from our analysis of the returns of this company, it would appear that the net income from the steelmaking operations of MRM, measured in terms of a percentage of sales revenue or as a return on capital employed, will not in 1974 exceed that which has been customarily achieved in prior years.

10.4 Burlington Steel

Burlington Steel is a division of Slater Steel Industries Limited, a public company, whose shares are listed on the public stock exchanges in Canada and 50.2% of whose shares is owned by British Steel Corporation Limited, which in turn is owned by the Government of the United Kingdom. The company has two divisions, Burlington Steel, which manufactures and markets primary steel products, and Slater Products, which is the largest producer in Canada of pole-line electrical distribution equipment.

The plant of Burlington Steel consists of three electric furnaces with an annual raw steel capacity of about 250,000 tons, continuous casting equipment, and a rolling mill which produces the following primary iron and steel products:

- Reinforcing bar
- Merchant bars
- Structural bars

These facilities are located in Hamilton, Ontario.

The following table sets out all price increases, including scrap surcharges, since 8th January, 1974, by product:

TABLE 31
List Prices of Finished Products for Burlington Steel

Effective Date	Price Per Ton		
	Structural Bars	Merchant Bars	Reinforcing Bars
January 8, 1974.....	\$168	\$173	\$169
January 14, 1974.....	176	184	164
February 1, 1974.....	181	189	169
March 4, 1974.....	216	224	204
April 3, 1974.....	216	224	214
June 3, 1974.....	223	223	213
July 3, 1974.....	233	233	223
August 1, 1974.....	233	233	233

These prices include a scrap surcharge of varying amounts from \$20 per ton to \$55 per ton from and after 5th November, 1973.

Financial Review

There is no separate disclosure of the financial results of Burlington Steel in the public reporting of Slater Steel Industries Limited. The sales of Slater Steel Industries Limited in the year ending 30th March, 1974 were \$44.2 million. Approximately three-quarters of these sales came from the Burlington Steel Division and about 90% of Burlington's products are classified as primary steel products for the purposes of this Inquiry.

The following table has been prepared from the annual reports of Slater Steel Industries Limited (in 1973 the year end of the company was changed from 31st October to 31st March):

TABLE 32
Slater Steel Industries Limited – Profit Margins

	Net Income ^(a) as a percent of sales		Return on equity ^(b)	Return on investment ^(b)
	Before taxes	After taxes		
1970.....	17.4	8.2	6.9	5.4
1971.....	14.1	6.9	5.1	4.5
1972.....	14.9	7.6	7.0	5.9
1973 (5 months).....	10.1	5.3	(c)	(c)
1974.....	10.0	6.1	14.6	10.9

(a) Before extraordinary items and before addition of equity in earnings from the Ipsco investment made in December 1972.

(b) Calculated on the basis described on page 48 of the report and includes equity in earnings of Ipsco. (Substantial improvement in 1974 ratios mainly result from higher earnings in Ipsco).

(c) Not calculated because of short period.

The Inquiry has obtained on a confidential basis the results of operations of Burlington Steel (as over 90% of the sales of Burlington Steel are primary products, it was not considered necessary to make an individual product analysis but rather to review the results of the whole Burlington Steel Division). As noted above, this division accounts for about three-quarters of the sales of Slater Steel and, accordingly, as might be expected, the general trend of profit measurements as a percent of sales for the Burlington Steel Division are not dissimilar from the table above for Slater Steel Industries. The increase in return on investment reflected in the table for Slater Steel Industries Limited in the 1974 fiscal year results primarily from the company's equity in the earnings of Ipsco. With this exception, the trend and levels of return on investment of Burlington Steel are reflected in those for the company as a whole.

Conclusion

As noted in the interim report of Slater Steel Industries Limited (for the three months ended 30th June, 1974), and confirmed in confidential figures supplied to the Inquiry, profit percentages of Burlington Steel declined from the previous quarter and approximated the average for the fiscal year ended 30th March, 1974. While earnings of Slater Steel Industries Limited have improved substantially in the year ended 30th March, 1974 and in the quarterly reports issued since then, the major portion of the improvement relates to the company's equity in earnings of Ipsco. Our analysis of the accounts of this division of Slater Steel Industries Limited did not reveal that price increases since May, 1974 have resulted in profit margins greater than those customarily obtained in the steel industry generally, the minimill industry, or in the comparable prior years of Burlington Steel's operations.

10.5 Atlas Steels

This steelmaking facility is operated as part of a division of Rio Algom Mines Limited, which in turn is controlled by the Rio Tinto-Zinc Corporation Limited of London, England. Atlas produces raw steel principally for the ultimate production of stainless steel and other specialty steels. While stainless steel is a primary steel product in the sense that it is included in Statistics Canada's S.I.C. 291 as such, it is treated in the industry as something different than a primary steel product. Atlas is the only significant producer of stainless steel in Canada and exports a considerable amount of its product through its plants in Welland, Ontario and Tracy, Quebec. Information concerning Atlas is included by Statistics Canada in classification S.I.C. 291, primary iron and steel products. If produced in a separate stainless steel category its financial information would be fully disclosed since Atlas is the only significant stainless steel producer in the country. For the purposes of this Inquiry, we have considered stainless steel as outside the range of primary iron and steel products as described in the Order in Council and have concentrated our study on the raw steel products sold as carbon steel, a primary iron and steel product. Carbon steel production represents about 18% (expressed in terms of revenue of the total steel division of Rio Algom) or 84,000 tons annually at current production levels. The company in effect uses the carbon steel market as an outlet for excess raw steelmaking capacity in its stainless and specialty steel operations. Atlas produces its raw steel by electric furnace technique at Welland, Ontario and operates rolling mills at Welland. The company also produces raw steel for the manufacture of stainless steel at Tracy, Quebec. Atlas' primary steel production represents about half of one percent of the primary steel market in Canada.

Another part of the steel division of Rio Algom, Atlas Alloys, operates steel centres inside and outside Canada. For reasons stated above, investigations were confined to the carbon steel production of the steel division of Rio Algom.

The following is a table of price increases of primary products showing effective dates of introduction.

TABLE 33

**Base Prices and Scrap Surcharges for Representative
Primary Products of Atlas Steels**

(\$/Ton; f.o.b. Mill)

HOT ROLLED CARBON (Representative Product – C1045 H.R. 2” round)				
Effective Date	Base Price	% Base Price Change	Scrap Surcharge	Total Price
January 17, 1974.....	\$203		\$ 25	\$228
March 18, 1974.....	203		45	248
April 17, 1974.....	203		50	253
June 3, 1974.....	229	12.8%	45	274
June 17, 1974.....	229		41	270
July 16, 1974.....	229		45	274

COLD FINISHED CARBON (Representative Product – C1020 3” RD. cold drawn)				
Effective Date	Base Price	% Base Price Change	Scrap Surcharge	Total Price
January 17, 1974.....	\$291		\$ 25	\$316
March 18, 1974.....	291		45	336
April 17, 1974.....	291		50	341
June 3, 1974.....	327	12.4%	45	372
June 17, 1974.....	327		41	368
July 16, 1974.....	327		45	372

Financial Review

The only public financial disclosure appears in the annual report of Rio Algom in a statement “Comparative Consolidated Earnings by Operation”. This statement combines the operating results both for the carbon and low alloy products of Atlas Steels and its specialty steels line (which is not covered by the terms of reference of this Inquiry) and for Atlas Alloys which is basically a metal service centre.

The following table has been prepared from annual reports of Rio Algom Mines for the years ended 31st December, 1970-1973 and shows the results of operations of the steel division before interest and taxes:

TABLE 34

Financial Results of Rio Algom Steel Division*

	Year ended 31st December			
	1973	1972	1971	1970
	(000's omitted)			
Revenue from sales of steel and other products.....	\$163,392	\$132,589	\$121,172	\$139,112
Expenses:				
Cost of sales, selling and administration.....	142,703	122,679	113,082	123,541
Depreciation and amortization.....	6,481	6,463	6,284	5,944
Total expenses.....	149,184	129,142	119,366	129,485
Net earnings from operations before interest and taxes.....	\$ 14,208	\$ 3,447	\$ 1,806	\$ 9,627
Net earnings as a percent of sales..	8.7%	2.6%	1.5%	6.9%

*This Inquiry is concerned only with the carbon steel operations of this division of Rio Algom Mines Limited.

In recent years, carbon and low alloy steel products have accounted for less than 20% of the total steel division sales of Rio Algom Mines and confidential information disclosed to the Inquiry shows that the profit contribution of the carbon and low alloy steel products, as a percent of sales, has been less than the percentage for the entire division.

The results of operations for the steel division of Rio Algom Mines are not disclosed in the interim reporting of that company, but the Inquiry has obtained these figures for the six months ended 30th June, 1974. While there has been a considerable improvement in net earnings from operations before interest and taxes as a percent of sales for carbon and low alloy steel products in the first six months of 1974, the profit percentage obtained is still substantially below the composite profit percentage for the major integrated producers shown on page 48 of this report. Approximately one-half of the profit improvement in this period directly resulted from a decline in the percentage of fixed expenses to revenue as a direct result of substantial revenue improvements which were accomplished without a comparable increase in fixed expenses.

Conclusion

While the profit contribution for carbon and low alloy steel products as a percent of sales has increased this year, and is substantially in excess of the past few years, it is still below the percentage contribution recorded in 1967 and 1968, and below what has been customary in the industry. Therefore it has been concluded that profit margins currently being achieved in this operation are not greater than those which customarily obtain either in this operation or in the electric furnace branch of the steel industry.

10.6 *Lake Ontario Steel Company Limited (Lasco)*

This is a private company, the shares of which are 100% owned by Canadians. These owners in turn own interests varying from control to significant minority positions in steelmaking operations in England and the United States. The company's facilities include two electric furnaces with an annual steel-making capacity of 330,000 tons of finished steel, continuous casting machines and rolling mills, all located at Whitby, Ontario. The company produces:

Reinforcing bars

Small structurals

Merchant bar and special quality bar

These products are all primary steel products and are sold mainly in Ontario, Quebec and the Northern United States. These rolling mill products of the company comprised approximately 2% of the total 1973 Canadian market. Its plant, in the present state of development, represents an investment upwards of \$20 million. As in the case of the other electric furnace operations, Lasco has experienced sharp increases in the cost of its principal raw material, scrap metal. To cover scrap cost increases, Lasco established a scrap surcharge in the month of March 1974 of \$40 per ton, which dropped to \$30 a ton in June and returned to \$40 per ton in July. An additional charge of \$5 to \$10 per ton was imposed on all sales to customers in the United States. These surcharges came later in the case of Lasco and have been somewhat smaller than most of the other electrics.

Table 35 shows the price increases introduced by Lasco after 22nd May, 1974.

These increases were introduced after the price increases by Stelco and Sidbec, upon whose prices Lasco bases its price schedules. The company, as mentioned above, has regularly sold a part of its output to customers in the United States. In earlier years, this sometimes exceeded 25% of the total output, but in 1973 and 1974 this percentage has generally declined.

Financial Review

Being a private company, Lasco does not release its financial information to the public, nor is there any public record thereof. However, the company has provided to the Inquiry financial details of its operations for the past few years, expressing the hope that for competitive reasons as much as possible would be retained in confidence. As substantially all of the output of Lasco is primary steel products, the Inquiry focused its review on the financial results for the whole company and did not consider it necessary to attempt a detailed review on a product-by-product basis (although such information was made available to the Inquiry).

In its appearance before the Inquiry, the company claimed it would be an injustice to average profit margins per ton back over its formative years "thereby discounting the accomplishments resulting from courageous investment and hard work". By way of example the company pointed to a 69% increase in

TABLE 35

Lasco Price Increases after 22nd May, 1974

Product	Area	Effective Date	Per 100 lbs.		
			Old Price (Base)	New Price (Base)	Percentage Increase
Rebar.....	Ontario and Quebec	28th June, 1974	\$8.45	\$ 9.70	14.8
MBQ Rounds.....	Ontario and Quebec Export	10th June, 1974	\$8.45	\$ 9.65	14.2
		17th June, 1974	\$9.25	\$ 9.65	4.3
SBQ Carbon.....	Ontario and Quebec Export	10th June, 1974	\$9.40	\$10.70	13.8
		10th June, 1974	\$8.60	\$10.70	24.4
SBQ Alloy	Ontario and Quebec	10th June, 1974	\$9.85	\$11.25	14.2
Channels.....	Ontario	10th June, 1974	\$8.05	\$ 9.65	19.9
			(Grade Extra was nil, now \$0.15)		
	Quebec	10th June, 1974	\$8.40	\$ 9.65	14.9
			(Grade Extra was nil, now \$0.15)		
3" and 4"	Export	17th June, 1974	\$9.00	\$ 9.65	7.2
		17th June, 1974	\$9.25	\$ 9.65	4.3
			(Grade Extra was nil, now \$0.15)		
Bar Angles.....	Ontario and Quebec Export	10th June, 1974	\$8.45	\$ 9.65	14.2
		17th June, 1974	\$9.25	\$ 9.65	4.3
Structural Angles.....	Ontario	10th June, 1974	\$8.05	\$ 9.65	19.9
			(Grade Extra was nil, now \$0.15)		
	Quebec	10th June, 1974	\$8.40	\$ 9.65	14.9
			(Grade Extra was nil, now \$0.15)		
	Export	17th June, 1974	\$9.00	\$ 9.65	7.2
			(Grade Extra was nil, now \$0.15)		

All prices are F.O.B. the Mill, Whitby, except certain products which are equalized on Hamilton, and exclude scrap surcharge.

production per man hour in the period 1969 to 1973 and this improvement has continued into 1974.

Following a review of earlier financial statements, the Inquiry accepted this representation and basically limited its detailed review to 1972 and 1973 and the first two quarters of 1974.

In order to protect the confidential nature of the company's financial information, the following table has been prepared of profits before and after tax as a percentage of sales with the 1972 percentages indexed at 100.

TABLE 36
Lasco Indiced Profit Margins
(1972 = 100)

	Net income as a percent of sales	
	Before tax	After tax
1972.....	100	100
1973.....	112	123
1974 Quarters		
—First.....	106	117
—Second.....	99	108

From the table above it is possible to conclude that recent sales price increases have not resulted in profit margins significantly different from 1972 and 1973. While this company has shown a higher level of profitability than most in the industry, it contends that as it is basically a price follower, and in effect is not in a position to do otherwise, its higher profitability must relate to a higher level of productivity. The company's price levels were basically the same as Stelco until March of 1974 when it added the \$40 per ton scrap surcharge mentioned above (for discussion of surcharges see page 90 of this report).

This company's profit margins must be understood in the light of two circumstances:

- A. It would be extremely difficult to suggest that this company must have a lower price level than the neighbouring major integrated producers, and
- B. The profits resulting from sales at prices competitive with those of the major integrated producers who supply 80% of the market cannot be regarded, without further circumstance, as greater than those which customarily obtain in the electric furnace branch of the industry. It must always be borne in mind that the electric furnace operator is of necessity a price follower not leader, and at the best of times represents 15% of the market. If this fact of life is forgotten and the same tests applied to these producers as to the integrated producers, these electrics in lean times would be placed in an extremely bad competitive position at best and out of business at worst.

Conclusion

For these reasons, we reached the conclusion that the profit margins currently reflected in the accounts of Lasco are not greater than customarily obtained in the past by this producer. Lasco, by reason of its relatively new plant and its productivity achievement already mentioned, has recently shown higher profit rates than other members of the electric group, but this does not alter the conclusion noted.

10.7 Western Canada Steel Limited

This company is a wholly owned subsidiary of Cominco Limited, which is a corporation whose shares are listed on the principal stock exchanges of Canada and is controlled by Canadian Pacific Investments Limited.

The company's facilities consist of electric furnaces in Vancouver and Calgary, and a smaller facility in Hawaii. The current capacity of the Vancouver electric furnace is 110,000 tons of steel per year and the Calgary plant's capacity is 50,000 tons of raw steel per year. A 200,000 ton capacity furnace is currently being installed in Vancouver and the present Vancouver equipment is being transferred to Calgary so that by 1976 the two plants will have a total annual capacity of 290,000 tons of raw steel.

As in the case of the other electric furnace operations, these plants are scrap based with the scrap being acquired in British Columbia and on the Prairies. In the British Columbia plant, the company operates a forging plant for the manufacture of industrial fasteners and forgings which are secondary products not included in our investigations. The company also handles a variety of products not of its own manufacture.

The company introduced specific price increases in the month of June, 1974, relating to reinforcing bar and merchant bar, which are the company's only primary iron and steel products. The weighted average of all sizes of reinforcing bar was increased in price by \$46 per ton or about 18% and merchant bar was increased about \$7 per ton, representing an increase of less than 3%. This company does not apply a scrap surcharge but has been adjusting its base price to compensate for increasing scrap and other costs. After the June price increases the weighted average prices were \$305 per ton for reinforcing bar and \$322 per ton for merchant bar.

The company's products are sold principally in the three Western Provinces with some exports to the United States. Situated as it is on the Pacific Ocean, its primary British Columbia market is one in which imported offshore steel provides severe competition. From 1972 onwards, the world steel shortage has protected the company from import pressure and its profit margins reflect this fact.

Financial Review

As noted above, the company is a wholly owned subsidiary of Cominco Limited and there is no separate disclosure of its financial results in the public reporting of Cominco, other than a notation that Western Canada Steel's

consolidated sales in 1973 totalled \$34.9 million (1972 – \$31.3 million). These sales include those of the Hawaiian subsidiary. Public testimony indicated that production in Hawaii in 1973 was about 25% of total production. Sales revenues would be in the same general ratio. We limited the Inquiry to the Canadian operations of Western Canada Steel and all financial information given below is similarly limited.

In addition to the production of rebar and merchant bar, the company sells a number of products manufactured by others (and referred to as non-manufactured products). In the past four years sales of non-manufactured products have varied between 12% and 20% of total sales. In the first six months of 1974 there has been a substantial increase in sales revenue for both manufactured and non-manufactured products, with the latter category growing to nearly 40% of total sales.

Profit margins for the Canadian operations of the company were disclosed in a public hearing in Vancouver and the profit margins (after all costs including income taxes) as a percentage of sales in the period from 1962-1973 ranged from nothing to 6.8%, the latter being realized in 1973 (the previous highs were 5.8% and 5.7% in 1964 and 1965, respectively). Profit margins after taxes on both manufactured and non-manufactured products have been obtained and reviewed by the Inquiry. On manufactured products (rebar and merchant bar) profit margins have approximated those for all products. Profit margins in 1973 were adversely affected by a strike lasting over three months in the first half of the year. Profit margins in the last six months of 1973 were substantially above the 6.8% for the entire year. For the first half of 1974, profit margins for manufactured products about equalled those experienced in the last half of 1973.

Conclusion

A calculation presented to the Inquiry indicated that the increase in average sales price per ton in the first half of 1974 was only slightly in excess of the increase in average cost per ton in the same period. In short, there is no evidence that the company's pricing policies are currently doing more than recovering the cost increases incurred this year. While the company has undoubtedly realized higher profit margins since offshore competition was eliminated by short supply in the world market, its present level of profit margins cannot, in all the circumstances, be said to be greater than obtained in 1973 or greater than customarily obtained in the industry.

Inventories

The second part of the Order in Council establishing this Inquiry provides as follows:

- “(b) . . . to inquire into and report . . . on whether producers of primary iron and steel products are . . .
- (ii) withholding or causing to be withheld from sale or distribution an inventory of the products that is substantially in excess of that which they would normally hold or cause to be held with the intention of realizing, at a later date, a profit margin on the sale or distribution of the articles that is greater than they would customarily obtain on such sale or distribution.”

11.1 Producer Inventories

The Inquiry first proceeded to examine the accounting records relating to inventory of all the principal primary producers. In testimony before the Inquiry, representatives of each producer stated that their respective steel-works were operating at capacity in order to fill actual orders on hand and that virtually nothing was produced for inventory. Some production for “the shelf”, (that is to say for inventory purposes), was run occasionally to obtain economical production runs. Additionally, goods were sometimes produced which failed to meet the specifications in the customer’s order. In each case, the steel product was either pushed out of the door to a ready market of buyers or it was recycled as internally generated scrap for which there is, in these times of capacity production and scrap shortage, a great need. In one instance, an electric furnace producer discovered that some of his rejected tube product (such rejections being generally referred to in the industry as “non-prime products”) was in strong demand when altered slightly to a non-round form. This demand increased to the point that this accidentally produced by-product was in such short supply that it became a regular product of the mill.

Figures produced for the Inquiry with respect to inventory levels over the past four years were not strictly comparable. Our analyses of these confidential data reveal, for example, that:

- A. The average number of days of shipments represented by finished steel inventories for the combined figures of two producers were as follows:

1971	21.9 days
1972	23.3
1973	16.8
1974 (first 6 months)	13.9

- B. In addition, other producers' evidence indicated a decline in inventories relative to raw steel production during 1973 and 1974.

11.2 Survey of Steel Users

In order to assess the position and views of the steel-consuming public, the Inquiry sent out 742 letters inviting steel consumers to make known their views on steel marketing generally, the withholding of supply, and pricing practices. Only seven replies were received complaining of inventory practices and of these none referred to any such action by the steel producers. Six replies indicated some predatory trade practices by the steel centres (that is, the warehouse and service operations) in this period of steel shortage. A great many of the replies commended the steel producers for their restraint during this period of extreme shortage and particularly for their forbearance in shipping to the more lucrative export market.

It would perhaps be helpful to add that, in most instances, a steel centre is something more than a warehouse. The centre services a great segment of the trade whose steel requirements are not of such volume as to qualify for direct dealings with the steel mills. The centre thus accumulates small orders and then places a consolidated order with the mill which thereby can programme a longer and more economical production run. Thus the steel centre relieves the mill of much of the need to carry inventory and from the expensive business of servicing small uneconomic short-run orders. It should be added that the steel centre also cuts and modifies steel in minor ways to service its customers.

The steel fabricator is really an arm of the construction industry. The fabricator cuts, drills, welds and assembles structural steel for the building industry. Generally this is accomplished by the fabricator taking into inventory, when receiving a construction sub-contract, the steel required to service that contract.

11.3 Limiting the Scope of the Inquiry

We considered very carefully the usefulness of widening the Inquiry (if so authorized) to include an investigation of the steel centres and the steel fabricators to determine if these levels of the industry have withheld supplies from the market as part of a practice to increase prices or otherwise enhance the profits of their trade. Only one item of evidence supported any such conclusion. A table regularly prepared by Statistics Canada^(a) indicates that in 1973 a higher proportion of rolling mill products was shipped from the mills to steel centres compared to earlier years. The witnesses of many of the steel producers were examined on this point by the Inquiry and their testimony was invariably to the effect that the construction industry was in a boom cycle and had been for the past two or three years, with the result that small to medium size contractors were increasingly turning to the steel centres for their needed

(a) Statistics Canada, "Primary Iron and Steel", Cat. No. 41-001, Various monthly issues, Table 11.

steel. The larger contracts require the involvement by the general contractor with a steel fabricator who, upon being awarded the contract, would acquire the steel required to perform the contract, and his inventory, as a result, would show this steel as being on hand. Thus in times of great activity in the construction industry, larger quantities of steel move through the hands of steel centres and fabricators than in other periods.

The Inquiry found no evidence of inventory accumulation by steel producers. To the extent information relating to steel centres came to hand there has been nothing to warrant or support a request for authority to broaden this Inquiry into these parts of the steel industry. Furthermore, as will be seen elsewhere in this report, our general conclusion is that if the withholding of supply and similar trade practices calculated to increase prices and enhance profits are to be avoided, this could be done successfully and efficiently only by the creation and maintenance of conditions which will produce an adequate supply of steel in the market under competitive conditions.

Answers to Specific Questions in Order in Council

12.1 Profit Margins

The Order in Council poses three questions which, broadly stated, are as follows:

1. *Has Stelco or any other producer of primary iron and steel products so raised their prices for these products since 15th May, 1974 as to exact a profit margin greater than would customarily obtain on the sale of such products?*

For reasons given principally in Chapters 8, 9 and 10 and supported in the balance of this report, my answer is no.

2. *Are producers of primary iron and steel products exacting profit margins on the sale of these products that are greater than would customarily obtain on such sales whether or not they have raised their prices after 22nd May, 1974, the date of the Order in Council?*

Again my answer is no, for the reasons set forth in the preceding chapters of this report.

In answering these two questions I have given the term "exacting" the broadest meaning so as to include therein a lower standard of intent or recovery such as would be implied if the term used had been "earned," or "achieved," or "recovered," or "realized" as that term is used in paragraph (b) (ii) of the Order in Council. Clearly the answers would be in the negative if "exacting" were given its literal meaning as discussed in Chapter 3, but assuming that the broader and more practical meaning is assigned to the term in both questions, the answer to both is no. I have added this observation to make it clear that my negative answer is not on the basis that the profit margins, whatever they may be in scale, have not been technically "exacted" within the meaning of that term, but rather on the basis that the profit margins accruing either after the increased prices were introduced, or generally, have not been greater than would customarily obtain on the sale of the primary iron and steel products.

In giving these answers I wish to add that the steel producers have now achieved a general price structure that is producing profit margins at or approaching levels equal to previous high plateaus in the industry's recent history. Future increases in prices should, to avoid driving earnings to levels beyond those attained by the industry in past periods of prosperity in the steel business, be closely attuned to actual cost increases, otherwise profit margins will exceed

those which customarily obtain in the industry. Allowance must however be permitted for inventory profits which are produced by the unprecedented sharp cost increases this year and are included in earnings currently being reported. An inventory profit is an anomaly, at least partially illusory, thrown up by sudden sharp upward cost shifts. These inventory profits, if a passing phenomenon, will distort future earnings comparisons, unless of course the world is on an infinite inflation curve. The direct linkage between cost and price increases should be a prerequisite to price structure variations unless steel pricing policies are to become productive and not reflective of inflationary forces. To retain perspective in this report, I should add that the last observation applies with at least equal force to a great many other sectors in the economy.

The steel producers have shown restraint in refraining in this period of severe world steel shortage from increasing their exports despite the opportunity to realize the much higher prices presently prevailing outside Canada. Any additional steel exported at this time would enhance the steel producers' earnings but would further tighten the supply problem in this country. Exports have continued at the same general level as in prior years, no doubt because it is in the interests of the Canadian steel industry (and the country as a whole) to maintain its contact with regular export customers whose trade is needed by the Canadian mills in more normal times.

12.2 Inventory

3. *Have the producers of primary iron and steel products withheld directly or indirectly an inventory of these products substantially in excess of what they would normally hold with the intention of realizing at a later date a profit margin on their sale that is greater than customarily obtains?*

My answer is no for the reasons given in the preceding chapters of this report, particularly Chapter 11.

The questions raised under paragraph (b) (ii) of the Order in Council relating to the withholding of inventory raise the related question as to the possible withholding of inventory at other levels of trade in the steel industry, as for example at the warehouse level. For reasons advanced in Chapter 11, we did not seek an expansion of our investigative authority so as to authorize an examination of inventory at the level of the steel centres (warehouses) or steel fabricators. Our reasons for not doing so were, firstly, the evidence before us did not point to the existence of such a practice, and secondly, the basic solution to such a problem, if it did exist, is the increase of production and supply as we have observed in Section 12.7 below.

12.3 Observations

Having devoted some time and effort to collecting the necessary foundation material from which to discern the answers to the problems put to this Inquiry, it may be appropriate, and perhaps even of some incidental help to the community, to pass along in the briefest manner some observations bearing

on the root issues giving rise to the narrow questions of profit margins in the steel industry as outlined in the Order in Council.

12.3.1

This is an industry uniquely Canadian. It is almost entirely owned and financed by Canadians. It is an unusual phenomenon in our community in that it produces a manufactured product at prices currently below the United States, Western European and Japanese levels. There are few industries, or manufactured products, if any at all, in Canada today about which this can be said. This has some bearing in assessing the scale of profit margins prevailing in the industry. The taxpayer has not been burdened by supporting the steel industry by large, low or no interest advances; taxation encouragement has not been granted to the industry specifically or in isolation; customs protection has been moderate; and yet an indigenous industry has been developed which technologically is either ahead, or at the very least abreast of world technology, and which produces steel at the lowest cost of any of the western industrial nations.

12.3.2

Steel is vital in a modern industrial society and a secure supply in adequate quantities is a prerequisite to the continued growth and progress of the Canadian community. A domestic steel industry will flourish only if it can compete successfully in its community for capital and labour with all other industries and activities. When such a condition prevails, capital has been attracted to steel historically in a way which ensures the increase of capacity to meet the needs of the domestic community in ample supply so as to preclude the evils which seem to immediately arise in times of tight supply. This same theorem applies equally to the need of the steel industry for access to capital so as to incorporate technological advances at least at a rate sufficient to enable the industry to produce steel at world competitive prices. This condition would appear to prevail in Canada today.

12.3.3

The adequacy of present price levels in the steel industry is subject always to the serious danger of rising capital costs. Earnings today, measured even by conservative standards of inflation or price-level accounting may be well below the industry's essential capital requirements. Another qualification one should make is that the steel plants are fully engaged at present and optimum earnings can be achieved because of this intensive plant utilization. A sag in demand leaving idle capacity creates an entirely different condition and one we must bear in mind so as to assess today's earnings with reasonable perspective. These caveats are stated to forestall the assumption of an automatic extension of the current sound condition of the industry into the future, short or long. In any event, we should expect that the discipline so far displayed by the steel industry in its pricing policies and in its export policies for primary products will be continued in the future. Thus far these policies of the price leaders in the industry have been based principally on a cost-increase recovery

or pass-through principle rather than a desire to inflate profits by gearing them to inflating costs.

12.3.4

We have adopted a variety of tests to measure and compare current earnings of the steel producers. These include earnings/sales ratio comparisons, ROE and ROI. All these procedures have been applied to prior results, current results and to the results established by projecting price increases and cost increases through full fiscal periods. These studies are helpful but practical regard must be had to the earnings or profits which can be realized by risk-free and effort-free debt investment. For example, the three major producers borrowed a total of \$165 million between May and August, 1974 at interest rates varying from 10% to 10 $\frac{7}{8}$ %. The proceeds of these loans were applied principally to enlarge and improve their steelmaking facilities. If these large plants cannot produce earnings roughly commensurate with those available to their bondholders or in the debt market generally, what then is the incentive or purpose for undertaking the large risks and efforts entailed in expanding and improving the steelmaking establishment?

12.3.5

Some suggestion has been made that the role of government at the federal level with reference to the steel industry might be better performed if the government interest were represented by a single agency or ministry. Similarly, suggestions have been made that the public interest might require, in relation to an industry so basic and vital to the national welfare as steel, a professionally equipped agency with regulatory power to oversee the operations and growth of this industry. In particular, the question arises as to whether surveillance of the profits recovered by members of the industry might require the continuity accorded by a permanent government agency. We observe in passing that the evidence before this Inquiry would not justify the singling out of the steel industry for any such extensive and expensive continuous price and profit surveillance. The performance of this industry was assessed in February 1970 and July 1971 by the Prices and Incomes Commission without any recommendation for action by government to regulate, curtail or supplant the earning initiatives of management. We do not detect anything in the evidence before and studies by this Inquiry which requires any such observation or recommendation. This is not to say that the industry should be exempted from any such regulation of general application to industry.

12.3.6

It forms no part of the directive under which this Inquiry was established to examine and report upon the effect and worth of the various activities of the Departments of the Government of Canada relating to steel. We are, however, impelled to observe, that the appreciation of and understanding of the steel industry by the Government and by the Parliament of Canada, would be greatly facilitated if information and studies concerning the industry were coordinated by one of the existing departments or agencies of the Govern-

ment of Canada. At the present time the Ministries of Energy, Mines and Resources; Consumer and Corporate Affairs; and Industry, Trade and Commerce all assemble information and studies concerning steel. Statistics Canada as well devotes a considerable amount of time, effort and money to reporting upon the steel industry in all its ramifications. Many sectors of government will probably continue their present interest in the steel industry, but government, industry, and the community generally, might be better served if the great volume of information which is regularly collected, and which is vital to a continuous and accurate understanding of the industry and its operations, were assembled in a central repository.

12.3.7

Some of the difficulties which become apparent on an examination into the Canadian steel industry result from the geographic spread of this country. In the case of the Prairie Provinces, and to a lesser extent the Province of British Columbia, the steel consuming public must tolerate a considerable surcharge on the cost of the product in the form of freight rates. Even the most cursory examination of the subject reveals a freight rate structure which has no basis in science and little to commend it in logic. But one need not venture into the complexities of freight rates in order to observe that a steel plant situated in any of the three Prairie Provinces has considerable geographic insulation from the competition of the Big Three integrated producers in the form of freight costs. British Columbia producers are not so protected because of the inter-mountain freight differentials designed to meet competition, theoretical or real, from water-borne carriers through the Panama Canal. In any case the presence of foreign steel supplies, with a relatively low freight barrier, protects the British Columbia customer from the Prairie Province practice of Hamilton-based pricing. The answer to this condition and to the other market constrictions, real or apparent, appears to this Inquiry to be of universal application, namely, adequate domestic supplies produced in a competitive steel market under conditions which allow the industry to achieve the levels of efficiency necessary to match or better world prices. With the continued growth of steel producing facilities in Selkirk, Regina, Calgary and Edmonton, competition in that region of Canada should attain the levels of competition existing at present in Central Canada, particularly if the present ability to earn an economic return on effort and investment, and the present practice of reinvestment of earnings in new plant capacity, continue.

12.3.8

Historically the Canadian steel industry has expanded its capacity in tandem with the growth of the domestic market, using imports as a cushion to meet the constantly varying domestic consumption. The merits of such a programme are:

- (a) the conservative utilization of limited capital, and
- (b) the achievement of a high plant capacity utilization factor which in turn generates more favourable financial returns for the industry.

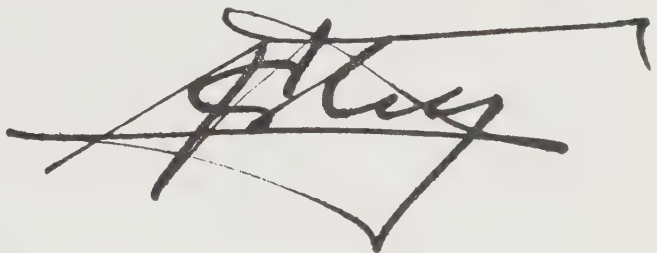
From a national interest point of view something can be said for a policy under which the industry would utilize exports rather than imports to cushion the effect of an undulating domestic demand. Such a programme or the further displacement of imported steel products particularly those with a high labour content, would increase the number of jobs in the Canadian steel industry and improve the country's balance of payments position. There are, of course, limitations to such a programme bearing in mind the small Canadian market by world scale even after recent sharp expansions. Such a programme would entail the dedication of considerable capital outlays by the steel industry, which in turn can only be done practically by maintaining the level of profit margins necessary to attract investment capital, and perhaps by government assistance in the raising of capital, as has been done in some foreign countries, or both. I should like to add only this: There is no shortage of planners and commentators proposing schemes for the spending of other people's monies. If there be merit in such an expansion programme it should be so determined and undertaken by those who will be taking the huge risks, raising the money required, providing the know-how, and above all dedicating their efforts to what will of necessity be a long-pull endeavour.

12.3.9

This Inquiry was established for the limited purpose of investigating certain price increases and price and profit policy questions. There have been many related matters touched upon on the way to preparing the answers to the specific questions put to this Inquiry. We have concentrated our view on those questions and the industrial facts necessary for their answer and other important aspects of the steel industry have been observed by peripheral vision only. It is no doubt unnecessary to caution that any other issues which might hereafter arise relating to this important and complex industry, would require an examination of that industry in all its ramifications, broader and deeper than that which is here undertaken to answer the three questions put by the Order in Council.

The overriding impression I am left with is that Canada has a good and efficient steel industry, responsive to the country's needs, both the long term need for increasing capacity, and the short term need for price and export discipline, and the industry is perhaps entitled to have this observation added collaterally to the answers herein given on questions referred to this Inquiry.

ALL OF WHICH I RESPECTFULLY SUBMIT
FOR YOUR EXCELLENCY'S CONSIDERATION.

A handwritten signature in dark ink, appearing to be 'H. K. Singh', written in a cursive style with a large, sweeping flourish at the end.

Commissioner

31ST OCTOBER, 1974

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APPENDIX "A"

The Order in Council establishing the Inquiry

P.C. 1974-1177

CERTIFIED TO BE A TRUE COPY OF A MINUTE OF A MEETING OF THE COMMITTEE OF THE PRIVY COUNCIL, APPROVED BY HIS EXCELLENCY THE GOVERNOR GENERAL ON THE 22 MAY, 1974.

The Committee of the Privy Council have had presented to them a Report by the Minister of Industry, Trade and Commerce which indicated that there appears to exist in the industry concerned with the production of primary iron and steel products a situation that is having or is likely to have a substantial effect on the living costs of Canadians generally.

The Committee, therefore, on the recommendation of the Minister of Industry, Trade and Commerce, advise that Mr. Justice Willard Z. Estey of the Ontario Court of Appeals, of the City of Toronto in the Province of Ontario, be appointed a Commissioner under Part I of the Inquiries Act:

- (a) to inquire into and report at the earliest possible date concerning increases in the price of steel products made effective May 15th, 1974, by the Steel Company of Canada and also concerning any increases that may be announced by any other producer of primary iron and steel products and to report whether such increases are exacting profit margins on the sale or distribution of such products that are greater than would customarily obtain on such sale or distribution; and further,
- (b) to inquire into and report at an early date on whether producers of primary iron and steel products are:
 - (i) exacting profit margins on the sale or distribution of such products that are greater than would customarily obtain on such sale or distribution; or
 - (ii) withholding or causing to be withheld from sale or distribution an inventory of the products that is substantially in excess of that which they would normally hold or cause to be held with the intention of realizing, at a later date, a profit margin on the sale or distribution of the articles that is greater than they would customarily obtain on such sale or distribution.

The Committee further advise that:

- (1) The Commissioner be authorized to publish his report under his own authority;
- (2) The Commissioner be authorized to exercise all powers conferred on Commissioners by Section II of the Inquiries Act;
- (3) The officers and employees of the departments of the Government of Canada be required to render such assistance to the Commissioner as may be required for his activities;

- (4) The Commissioner be authorized to engage the services of such counsel, staff, clerks and technical advisers as he may require at rates of remuneration and reimbursement to be approved by the Treasury Board.

C.P. 1974-1177

COPIE CERTIFIÉE CONFORME AU PROCÈS-VERBAL D'UNE RÉUNION DU COMITÉ DU CONSEIL PRIVÉ, APPROUVÉ PAR SON EXCELLENCE LE GOUVERNEUR GÉNÉRAL LE 22 MAI 1974

Le ministre de l'Industrie et du Commerce a présenté au Comité du Conseil privé un rapport selon lequel il semble exister dans l'industrie de la production du fer primaire et des produits de l'acier, une situation qui a ou aura probablement des répercussions considérables sur l'ensemble du coût de la vie pour les Canadiens:

A ces causes, sur avis conforme du ministre de l'Industrie et du Commerce, le Comité recommande que le juge Willard Z. Estey de Toronto (Ontario), de la Cour d'appel de l'Ontario, soit nommé commissaire en vertu de la Partie I de la Loi sur les enquêtes:

- (a) pour faire enquête et rapport dans les meilleurs délais sur la hausse du prix des produits de l'acier que la Steel Company of Canada a mise en vigueur le 15 mai 1974, ainsi que sur toute hausse que pourra annoncer tout autre producteur de fer primaire et de produits de l'acier, et pour établir si, grâce à ces hausses, lesdits producteurs retirent de la vente ou de la distribution de ces produits des profits supérieurs à ceux que leur rapporterait normalement telle vente ou distribution; et, en outre,
- (b) pour déterminer, au moyen d'une enquête, si les producteurs de fer primaire et de produits de l'acier:
 - (i) retirent de la vente ou de la distribution de ces produits des profits supérieurs à ceux que leur rapporterait normalement telle vente ou distribution; ou
 - (ii) refusent de vendre ou de distribuer des stocks qui sont sensiblement plus considérables que ceux qu'ils garderaient ou feraient normalement garder, ou en empêchent la vente ou la distribution, dans l'intention de les vendre ou de les distribuer plus tard en faisant des profits supérieurs à ceux que leur rapporterait normalement telle vente ou distribution, et pour faire rapport sur ces questions dans un proche avenir.

Le Comité recommande en outre:

- (1) que le commissaire soit autorisé à publier son rapport de son propre chef;
- (2) que le commissaire soit autorisé à exercer tous les pouvoirs que confère aux commissaires la Partie II de la Loi sur les enquêtes;

- (3) que les fonctionnaires et employés des ministères du gouvernement du Canada soient tenus d'apporter au commissaire l'aide dont il pourra avoir besoin pour exercer son mandat;
- (4) que le commissaire soit autorisé à retenir les services des avocats, du personnel, des commis et des conseillers techniques dont il pourra avoir besoin, aux taux de rémunération et de remboursement qu'approuvera le Conseil du Trésor.

APPENDIX "B"

Inquiry Staff

Mr. William J. Anderson, Q.C.	Commission Counsel
Mr. William Broadhurst, F.C.A.	Accounting Adviser
Miss J. Elizabeth Leitch, M.A.	Economic Adviser
Mr. Jacques J. Singer, Ph.D.	Economic Adviser
Professor Frank Iacobucci	Special Legal Adviser
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Reverend William T. Hogan, S.J.,	Special Steel Consultant

APPENDIX "C"

Dates and Places of Public Hearings

13 June, 1974	TORONTO, ONTARIO	Hearing Room, 8th Floor, 155 University Avenue
18 June, 1974	TORONTO, ONTARIO	Hearing Room, 8th Floor, 155 University Avenue
21 June, 1974	TORONTO, ONTARIO	Hearing Room, 8th Floor, 155 University Avenue
26 June, 1974	TORONTO, ONTARIO	Hearing Room, 8th Floor, 155 University Avenue
4 July, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
16 July, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
18 July, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
1 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
7 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
8 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street

12 August, 1974	MONTREAL, QUEBEC	Federal Court
13 August, 1974	SYDNEY, NOVA SCOTIA	The Cape Breton County Court House
15 August, 1974	REGINA, SASKATCHEWAN	Court House
16 August, 1974	VANCOUVER, B.C.	Federal Court
23 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
29 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
30 August, 1974	TORONTO, ONTARIO	Commerce Court, Commerce Hall, Bay Street
18 September, 1974	WINNIPEG, MANITOBA	Law Courts Building

Advertisements for Public Hearings Placed by the Inquiry

Advertisement of Public Hearing into Stelco price increase, held on 13 June, 1974, at 155 University Avenue, in the City of Toronto, was published in the following newspapers:

Toronto Globe & Mail.....	Monday,	10 June, 1974
Toronto Star.....	Monday,	10 June, 1974
Financial Post.....	Wednesday,	12 June, 1974
Financial Times.....	Monday,	10 June, 1974
Sault Ste. Marie Star.....	Monday,	10 June, 1974
Halifax Chronicle-Herald.....	Monday,	10 June, 1974
Halifax Mail Star.....	Monday,	10 June, 1974
Montreal Star.....	Monday,	10 June, 1974
Montreal La Presse.....	Monday,	10 June, 1974
Ottawa Journal.....	Monday,	10 June, 1974
Ottawa Le Droit.....	Monday,	10 June, 1974
Winnipeg Tribune.....	Monday,	10 June, 1974
Winnipeg Free Press.....	Monday,	10 June, 1974
Regina Leader Post.....	Monday,	10 June, 1974
Edmonton Journal.....	Monday,	10 June, 1974
Vancouver Sun.....	Monday,	10 June, 1974
Vancouver Province.....	Monday,	10 June, 1974

Advertisement of Public Hearing into Algoma price increase, held on 21 June, 1974, at 155 University Avenue, in the City of Toronto, was published in the following newspapers:

Halifax Chronicle-Herald.....	Tuesday,	18 June, 1974
Halifax Mail Star.....	Tuesday,	18 June, 1974
Montreal Star.....	Tuesday,	18 June, 1974
Ottawa Citizen.....	Tuesday,	18 June, 1974
Ottawa Journal.....	Tuesday,	18 June, 1974
Financial Post.....	Wednesday,	19 June, 1974
Sault Ste. Marie Star.....	Tuesday,	18 June, 1974

Winnipeg Free Press.....	Tuesday,	18 June, 1974
Winnipeg Tribune.....	Tuesday,	18 June, 1974
Regina Leader Post.....	Tuesday,	18 June, 1974
Edmonton Journal.....	Tuesday,	18 June, 1974
Vancouver Sun.....	Tuesday,	18 June, 1974
Vancouver Province.....	Tuesday,	18 June, 1974
Hamilton Spectator.....	Tuesday,	18 June, 1974
Toronto Star.....	Friday,	14 June, 1974
Toronto Globe & Mail.....	Saturday,	15 June, 1974

Advertisement of Public Hearing into Sidbec-Dosco, held on 12 August, 1974 at the Federal Court, in the City of Montreal, was published in the following newspapers:

Montreal La Presse.....	Monday, 5 August, 1974
Montreal Star.....	Saturday, 3 August, 1974

Advertisement of Public Hearing into Sysco held on 13 August, 1974, at the Court House, in the City of Sydney, was published in the following newspapers:

Halifax Chronicle-Herald.....	Friday, 9 August, 1974
Halifax Mail Star.....	Thursday, 8 August, 1974
Cape Breton Post.....	Thursday, 8 August, 1974

Advertisement of Public Hearing into Ipsco held on 15 August, 1974, at the Court House, in the City of Regina, was published in the following newspaper:

Regina Leader Post.....	Thursday, 8 August, 1974
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Advertisement of Public Hearing into Western Canada Steel Limited, held on 16 August, 1974, at the Federal Court, in the City of Vancouver, was published in the following newspapers:

Vancouver Sun.....	Wednesday, 7 August, 1974
B.C. News.....	Wednesday, 7 August, 1974

Advertisement of Public Hearing into Manitoba Rolling Mills, a division of Dominion Bridge Company, Limited, held on 18 September, 1974, at the Law Courts Building, in the City of Winnipeg, was published in the following newspaper:

Winnipeg Tribune.....	Thursday, 12 September, 1974
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NOTE: For those hearings held in Toronto, but not advertised, it was the practice of the Inquiry to announce at the conclusion of a hearing the dates of all future hearings scheduled at that time.

APPENDIX "D"

Persons Appearing at Public Hearings of the Inquiry

THE ALGOMA STEEL CORPORATION, LIMITED

D. S. Holbrook, Chairman and President

J. B. Barber, Vice-Chairman and Senior Vice-President

W. A. MacDonald, Q.C., Counsel

J. W. Rowley, Counsel

ATLAS STEELS COMPANY, a division of RIO ALGOM MINES LIMITED

A. V. Orr, Vice-President and General Manager

G. L. Sandler, Vice-President Finance

J. G. Littlejohn, Counsel

W. C. Graham, Counsel

BAKER WEEKS OF CANADA LTD.

Gerry Reid

BURLINGTON STEEL COMPANY, a division of SLATER STEEL INDUSTRIES LIMITED

B. M. Hamilton, President

R. B. Wilson, Vice-President Administration & Finance and Secretary

S. B. Scott, Counsel

BURNS BROS. AND DENTON LTD.

Donald A. Anderson

CANADIAN STEEL WHEEL LIMITED, a division of HAWKER SIDDELEY CANADA LTD.

E. J. White, Vice-President

C. J. HODGSON SECURITIES LTD.

Marshall Miller

COLT INDUSTRIES (CANADA) LTD., CRUCIBLE STEEL DIVISION

N. F. Carpentier, Vice-President—Sales

DOMINION BRIDGE COMPANY, LIMITED

J. B. Phelan, Vice-President Steel Production and Supply Division

J. W. Rowley, Counsel

DOMINION FOUNDRIES AND STEEL, LIMITED

J. G. Sheppard, Executive Vice-President—Financial

J. Lewtas, Q.C., Counsel

C. R. Thomson, Counsel

DOMINION SECURITIES CORPORATION HARRIS & PARTNERS LTD.

C. Terry Fisher

GREENSHIELDS INCORPORATED

Charles Winograd

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

J. N. Turvey, President
J. D. MacLennan, Vice-President—Finance
W. H. Boulding, Treasurer
L. G. Welch, Vice-President Sales
W. M. Elliott, Q.C., Counsel

LAKE ONTARIO STEEL COMPANY LIMITED

W. W. Winspear, President
E. A. Goodman, Q.C., Counsel
D. Stockwood, Counsel

LOEWEN, ONDAATJE, McCUTCHEON & COMPANY LIMITED

William Sumpton, C.F.A.

MANITOBA ROLLING MILLS, a division of DOMINION BRIDGE COMPANY,
LIMITED

J. S. Campbell, General Manager
Peter Cleugh, Sales Manager
J. W. Rowley, Counsel

PITFIELD, MACKAY, ROSS & COMPANY LIMITED

Walter Ellison

PITTSBURGH NATIONAL BANK

E. H. Yeo III, Vice Chairman

QUEBEC IRON AND TITANIUM CORPORATION

P. Lamontagne, Counsel
P. Leblanc, Counsel

SIDBEC-DOSCO LIMITÉE

W. J. Moloughney, Vice-President Marketing
J. P. Howison, Vice-President Finance
J. M. Ellis, Assistant to the President
Pierre Sauve, Counsel

THE STEEL COMPANY OF CANADA, LIMITED

J. P. Gordon, President
N. J. Brown, Vice-President Finance
A. R. McMurrich, Vice-President Marketing
R. E. Karr, Vice-President, Comptroller
J. F. Howard, Q.C. Counsel

SYDNEY STEEL CORPORATION

E. F. Alderton, President and Chief Executive Officer
A. P. Bird, Executive Vice-President and Secretary
J. P. Cusack, Sales Manager

UNITED STEELWORKERS OF AMERICA

W. Mahoney, National Director
L. R. Williams, Director District No. 6
S. Cooke, International Representative
P. Brennan, Research Representative

WESTERN CANADA STEEL LIMITED
M. C. D. Hobbs, Chairman and Chief Executive Officer

WESTERN METAL & SUPPLY CO. LTD.
Clive Shragge, Operations Manager Shragge Steel

WOOD GUNDY LIMITED
Robert Morgan, Vice-President of Wood Gundy and Chairman of The
Toronto Stock Exchange

APPENDIX “E”

Summary^(a) of Replies to a Letter of Inquiry
sent to Users of Primary Iron and Steel^(b)

TOTAL letters sent.....	742
— Replies declining to comment.....	56 (7.6%)
— Replies containing comments.....	10 (1.3%)
— Replies containing comments related to steel service centres or warehouses.....	6 (0.8%)
TOTAL replies.....	72 (9.7%)

(a) As at 9 October, 1974; letter of inquiry sent on 5 July, 1974.

(b) The list of users was taken from lists published by various manufacturers associations.

APPENDIX "F"

Statistics Canada, Standard Industrial Classification (S.I.C.) 291 Iron and Steel Mills

291 Iron and Steel Mills

Bands, iron and steel, mfg.	Plate mill
Bars, steel, cold finished, mfg.	Plate, steel, mfg.
Bars, steel, cold rolled and cold drawn, mfg.	Plates, railway tie, mfg.
Billets, mfg.	Rail fastenings, mfg.
Black plate, mfg.	Rail mill
Blanks, for seamless tubes, mfg.	Rails, railway, mfg.
Blast furnace	Rod mill
Blooms, steel, mfg.	Rods, steel, mfg.
Boiler plate, mfg.	Rolled steel products, mfg.
Castings, steel, mfg.	Rolling mill
Coke oven connected with blast furnace	Sheet piling, unfabricated, mfg.
Cold rolled strip steel, mfg.	Sheet steel, mfg.
Concrete reinforcing bars, steel, unfabricated, mfg.	Skelp, mfg.
Continuous casting of steel	Slabs, steel, mfg.
Ferro-alloys and pig iron, mfg.	Sponge iron, mfg.
Flats, steel, mfg.	Steel foundry
Galvanized sheet, product of rolling mill, mfg.	Steel, mfg.
Hot rolled iron and steel products, mfg.	Steel mill
Ingots, steel, mfg.	Steel primary shapes, hot and cold rolling
Iron powder, mfg.	Steel works
Piling, sheet steel, unfabricated, mfg.	Structural shapes, steel, unfabricated, mfg.
	Terneplate, mfg.
	Tie plates, mfg.
	Tin plate, mfg.
	Wire rods, steel, mfg.

APPENDIX "G"

Primary Iron and Steel Producers^(a)

A-1 STEEL AND IRON FOUNDRY LTD.
ABEX INDUSTRIES OF CANADA LTD., AMSCO JOLIETTE DIVISION
THE ALGOMA STEEL CORPORATION, LIMITED
ATLAS STEELS COMPANY, a division of RIO ALGOM MINES LIMITED
BLACK CLAWSON-KENNEDY LIMITED
BURLINGTON STEEL COMPANY, a division of SLATER STEEL INDUSTRIES LIMITED
CAE MACHINERY LIMITED
CANADA ELECTRIC CASTINGS, LIMITED
CANADIAN STEEL FOUNDRIES,^(b) a division of HAWKER SIDDELEY CANADA LTD.
CANADIAN STEEL WHEEL LIMITED^(b)
COLT INDUSTRIES (CANADA) LTD., CRUCIBLE STEEL DIVISION^(c)
DAYTON STEEL FOUNDRY COMPANY LIMITED
DOMINION ENGINEERING WORKS LIMITED
DOMINION FOUNDRIES AND STEEL, LIMITED
ENAMEL & HEATING PRODUCTS, LIMITED
ESCO LIMITED
FAHRALLOY CANADA LIMITED
FAHRALLOY-WISCONSIN LIMITED
GRIFFIN STEEL FOUNDRIES LIMITED^(c)
HUDSON BAY MINING AND SMELTING COMPANY LIMITED
THE INDIANA STEEL PRODUCTS COMPANY OF CANADA LIMITED
INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.
IRVING INDUSTRIES LTD., FOOTHILLS STEEL FOUNDRY DIVISION
IVACO INDUSTRIES LIMITED^(d)
LAKE ONTARIO STEEL COMPANY LIMITED
LYNN MACLEOD METALLURGY LIMITED
MANGANESE STEEL CASTINGS LIMITED
MANITOBA ROLLING MILLS, a division of DOMINION BRIDGE COMPANY,
LIMITED
MARITIME STEEL FOUNDRIES LIMITED
MIDLAND-ROSS OF CANADA LTD., UNITCAST DIVISION
NEELON STEEL FOUNDRIES LIMITED
QUALITY STEEL FOUNDRIES LIMITED
QUEBEC IRON AND TITANIUM CORPORATION^(e)
QSP LIMITED^(d)
SOREL STEEL FOUNDRIES LIMITED
THE STEEL COMPANY OF CANADA, LIMITED
RELIANCE FOUNDRY COMPANY LIMITED

SIDBEC-DOSCO LIMITÉE
SYDNEY STEEL CORPORATION
VICTORIA MACHINERY DEPOT COMPANY LIMITED
WELMET INDUSTRIES LIMITED
WESTERN CANADA STEEL LIMITED

- (a) This appendix was produced from combining lists appearing in "Metallurgical Works in Canada, Primary Iron & Steel" by Energy, Mines & Resources, 1972, "Primary Iron & Steel" by Statistics Canada, cat. 41-001, December, 1973, and "Iron & Steel from Canada" by the Department of Industry, Trade & Commerce, 1972, with information obtained by the Inquiry. In comparing this list to that appearing in Appendix "H" most companies here listed and dropped from Appendix "H" had production of under 25,000 tons or were not primary producers.
- (b) Both these corporations sell their production to SIDBEC-DOSCO LIMITÉE, a company investigated by this Inquiry.
- (c) Produces predominantly secondary products.
- (d) Primary production facilities were not in operation at the date of the report.
- (e) Produces no primary steel only pig iron.

APPENDIX "H"

Primary Iron and Steel Producers Investigated by the Inquiry

THE ALGOMA STEEL CORPORATION, LIMITED
ATLAS STEELS COMPANY, a division of RIO ALGOM MINES LIMITED
BURLINGTON STEEL COMPANY, a division of SLATER STEEL INDUSTRIES
LIMITED
DOMINION FOUNDRIES AND STEEL, LIMITED
INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.
LAKE ONTARIO STEEL COMPANY LIMITED
MANITOBA ROLLING MILLS, a division of DOMINION BRIDGE COMPANY, LIMITED
SIDBEC-DOSCO LIMITÉE
THE STEEL COMPANY OF CANADA, LIMITED
SYDNEY STEEL CORPORATION
WESTERN CANADA STEEL LIMITED

APPENDIX "I"

CYCLES IN THE CANADIAN STEEL INDUSTRY

ANALYSIS FOR STEEL PROFITS INQUIRY

by J. ELIZABETH LEITCH

During the hearings, reference was frequently made to the cyclical nature of the steel industry and the extent of the fluctuations in consumption and production, and therefore in profits.

Consumption of Steel

Since 1950 there have been four major cycles in the consumption of steel in Canada, measured in terms of rolling mill products. These cycles were closely related to the GNP cycles and dated approximately as follows:

- A. 1950 – 1954 with a sustained peak in 1951-52-53
- B. 1954 – 1958 with a peak in 1956-57
- C. 1958 – 1960 with a peak in 1959
- D. 1960 – 1967 with a peak in 1965

During these years fluctuations in the volume of steel consumed were much sharper than in total consumption of goods and services, as measured in terms of constant dollar GNP. However, since 1968, consumption of steel has followed a steady upward course, similar to, but stronger than the trend in constant dollar GNP. For 1973, the index of apparent raw steel consumption (Base 1961=100) was 232.5 while the index of GNP in constant dollars (on the same base) was 192.6, as shown in the following table and accompanying Chart I.

TABLE I

Indexes of Apparent Raw Steel^(a) Consumption and Constant Dollar GNP, 1950-1973 Canada

(Base 1961 = 100)

	Apparent Raw Steel Consumption	GNP in 1961 Dollars
1950.....	67.6	61.7
1951.....	82.9	64.8
1952.....	83.7	70.5
1953.....	82.6	74.2
1954.....	68.0	73.3
1955.....	82.3	80.2
1956.....	118.2	87.0
1957.....	113.6	89.0
1958.....	86.3	91.1
1959.....	101.3	94.5
1960.....	91.5	97.2
1961.....	100.0	100.0
1962.....	107.6	106.8
1963.....	120.8	112.3

	Apparent Raw Steel Consumption	GNP in 1961 Dollars
1964.....	145.5	119.9
1965.....	174.5	127.8
1966.....	161.1	136.7
1967.....	153.5	141.3
1968.....	163.7	149.6
1969.....	175.8	157.5
1970.....	182.1	161.5
1971.....	195.1	170.5
1972.....	212.8	180.4
1973.....	232.5	192.6

(a) Rolled steel products in terms of raw steel equivalent.

SOURCE: Compiled by Steel Profits Inquiry from data supplied by Department of Energy, Mines and Resources, and Statistics Canada. See Table V *infra*.

Chart I
INDEX OF APPARENT RAW STEEL CONSUMPTION AND
INDEX OF GNP IN CONSTANT (1961) DOLLARS IN CANADA



Source: Table 1

The more volatile pattern of fluctuations in the consumption of steel shows up even more clearly when the year-to-year changes are examined. The following table and accompanying Chart II show the comparison of year-to-year percentage changes in consumption of raw steel and constant dollar GNP in Canada, and again it will be noted that since 1968 steel consumption has followed a much steadier course.

TABLE II

**Percent Change from Previous Year in Apparent Raw Steel^(a)
Consumption and Constant Dollar GNP, 1950-1973
Canada**

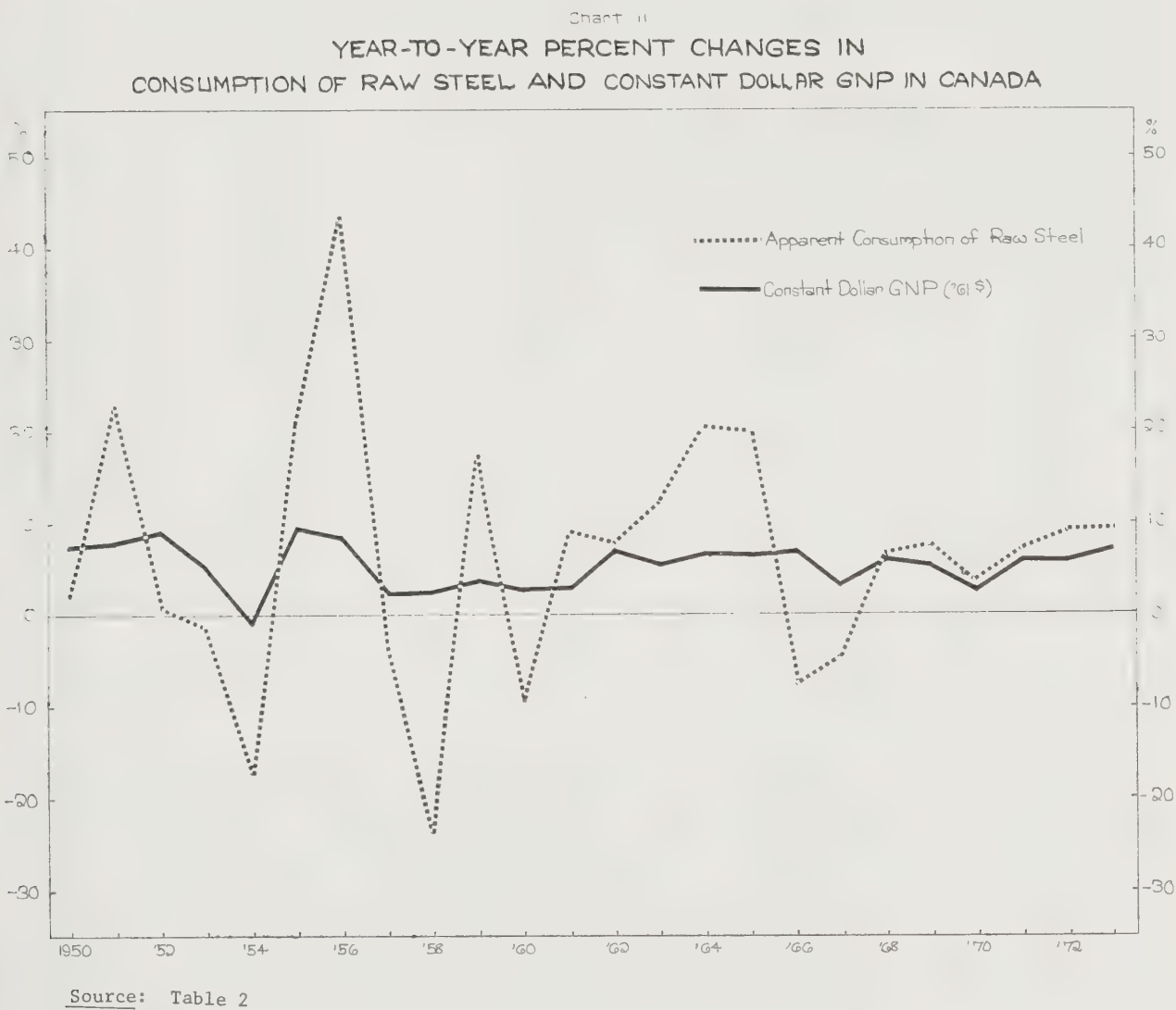
	Apparent Raw Steel Consumption	GNP in 1961 Dollars
1950.....	+ 2.0%	+ 7.6%
1951.....	+22.7	+ 7.8
1952.....	+ 1.0	+ 8.9
1953.....	— 1.3	+ 5.1
1954.....	—17.7	— 1.2
1955.....	+21.0	+ 9.4
1956.....	+43.7	+ 8.4
1957.....	— 3.5	+ 2.3
1958.....	—24.1	+ 2.3
1959.....	+17.0	+ 3.8
1960.....	— 9.7	+ 2.7
1961.....	+ 9.3	+ 2.8
1962.....	+ 7.6	+ 6.8
1963.....	+12.3	+ 5.2
1964.....	+20.5	+ 6.7
1965.....	+19.9	+ 6.7
1966.....	— 7.7	+ 6.9
1967.....	— 4.7	+ 3.3
1968.....	+ 6.7	+ 5.8
1969.....	+ 7.4	+ 5.3
1970.....	+ 3.5	+ 2.6
1971.....	+ 7.7	+ 5.8
1972.....	+ 8.6	+ 5.8
1973.....	+ 9.3	+ 6.8

(a) Rolled steel products in terms of raw steel equivalent.

SOURCE: Compiled by Steel Profits Inquiry from data supplied by Department of Energy, Mines and Resources, and Statistics Canada. See Table V *infra*.

The upward trend in steel consumption can also be measured in terms of per capita consumption and consumption per unit of constant dollar GNP. The rise in steel consumption per capita has been much stronger than in consumption per unit of GNP reflecting the fact that population growth has been much slower, and particularly since the decade of the 1950's, while the rate of growth in real GNP has been higher than the rate of population growth in every year except 1954, 1957 and 1958, and generally considerably higher. From 1968 to 1973 inclusive, average percentage increase over the previous year was 1.4 percent for population, close to 5.4 percent for real GNP and

around 7.2 percent for total steel consumption. For 1973, apparent consumption of steel in terms of raw steel equivalent was approximately 1,414 lbs. per person and .407 lb. per dollar of GNP, measured in 1961 dollars. Ten years earlier, in 1963, steel consumption was 858 lbs. per person and .365 lb. per dollar of GNP measured in 1961 dollars.



Shipments of steel by Canadian producers totalled 10,935,000 tons of rolled steel products in 1973, 91 percent being sold in the domestic market. The distribution of these shipments to the various users is shown in the following table.

TABLE III
Disposition of Net Shipments of Rolled Steel Products, 1973
Canada

(Thousands of Net Tons)

Principal Consuming Industries	1,000 tons	Percentage of total
Wholesalers and warehouses—Steel Service Centres	1,399	12.8
Other warehouses.....	157	1.4
Automotive and aircraft industries.....	1,684	15.4
Agricultural.....	211	1.9
Contractors—Building.....	766	7.0
Construction—Public and utility.....	46	.4
Structural steel fabricators.....	1,028	9.4
Containers.....	591	5.4
Machinery and tools.....	340	3.1
Wire, wire products and fasteners.....	796	7.3
Natural resources and extractive industries.....	238	2.2
Appliances and utensils.....	222	2.0
Other metal stamping and processing.....	635	5.8
Railway operating.....	280	2.6
Railroad cars and locomotives.....	131	1.2
Shipbuilding.....	51	.5
Pipes and tubes.....	1,298	11.9
Miscellaneous.....	72	.7
Total domestic shipments.....	9,945 ^(a)	
Exports (for final sale).....	990	9.0
Total disposition.....	10,935 ^(a)	100.0

(a) Figures rounded to agree with Table IV following.

SOURCE: Statistics Canada, *Primary Iron and Steel*, December 1973, Table 12A and computations by Steel Profits Inquiry.

It can be seen that the market for Canadian rolled steel products is divided into two fairly well defined areas, with roughly 30 percent of the shipments going to the durables industries that produce goods mainly for the consumer sector and therefore are sensitive to consumer demand, and 70 percent of the shipments going to manufacturers of machinery and equipment and the construction industry, all dependent on the level of capital investment. It is common knowledge that consumer spending is less sensitive than capital investment to changes in general economic conditions, but it is less well known that the intensity of steel consumption, that is the proportion of steel used in comparison with inputs of other materials into the production process, is more sensitive within the consumer sector to changing conditions. This is due to the comparatively high volatility of some of the big steel users producing consumer goods, for example, the automotive industry.

However, notwithstanding this greater sensitivity, for some ten years the volume of steel shipments to the durable goods industries has been rising faster than shipments to the industries producing machinery and equipment and the construction industry, as shown in Table IV and the accompanying

Chart III. This development became apparent in the mid-sixties when new family formation began to rise sharply reflecting the postwar acceleration in population growth. Considerable further stimulus to the secondary manufacturing industries using steel resulted from the Canada-United States Automotive Agreement signed in 1965. Shipments of rolled steel products to the durable goods industries have more than doubled during the past ten years, reaching almost 4 million tons in 1973. This growth in shipments to the durable goods sector is a favourable development which should help the steel industry to maintain a steadier, less volatile rate of performance.

TABLE IV
Domestic Shipments of Rolled Steel Products, 1950-1973
Canada

(Thousands of Net Tons)

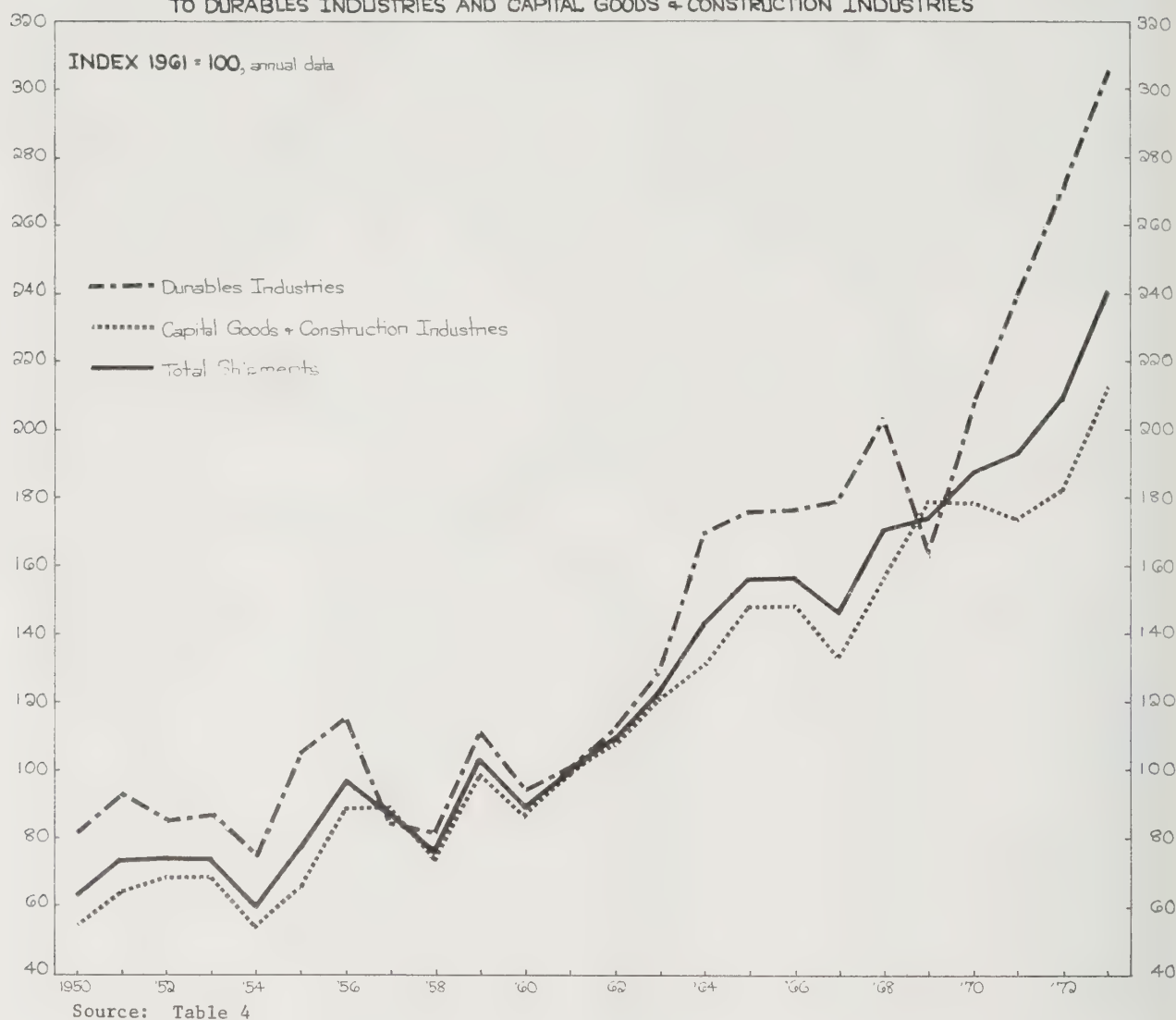
	Domestic Shipments ^(a)		
	Total	Durables Industries	Capital Goods and Construction Industries
1950.....	2614.0	1021.2	1592.8
1951.....	3052.7	1161.0	1891.7
1952.....	3057.0	1057.8	1999.2
1953.....	3085.3	1086.1	1999.2
1954.....	2504.5	935.8	1568.7
1955.....	3225.1	1306.4	1918.7
1956.....	4031.7	1441.0	2590.7
1957.....	3628.1	1050.7	2577.4
1958.....	3138.0	1004.8	2133.2
1959.....	4253.5	1389.2	2864.3
1960.....	3672.5	1164.7	2507.8
1961.....	4150.0	1245.4	2904.6
1962.....	4514.5	1388.1	3126.4
1963.....	5117.9	1611.8	3506.1
1964.....	5926.7	2115.3	3811.4
1965.....	6491.5	2189.4	4302.1
1966.....	6474.9	2189.4	4285.5
1967.....	6074.9	2226.2	3848.7
1968.....	7053.9	2534.6	4519.3
1969.....	7207.8	2035.8	5172.0
1970.....	7756.9	2586.7	5170.2
1971.....	7999.9	2972.3	5027.6
1972.....	8655.5	3370.0	5285.5
1973.....	9945.3	3795.1	6150.2

(a) Shipments to the durables industries comprise shipments to automotive and aircraft industries, containers, wire, wire products and fasteners, other metal stamping and pressing, appliances and utensils and miscellaneous. Shipments to the capital goods and construction industries comprise the remainder of domestic shipments.

SOURCE: Department of Industry, Trade and Commerce, Office of Industrial Policy, from published sources, Statistics Canada, *Primary Iron and Steel*, 1950-1973, December issues.

Chart III

DOMESTIC SHIPMENTS OF ROLLED STEEL PRODUCTS
TO DURABLES INDUSTRIES AND CAPITAL GOODS + CONSTRUCTION INDUSTRIES



An examination of the sources of supply of the steel used in Canada shows that the domestic steel industry has been gaining deeper penetration into the growing Canadian market and at the same time exports of steel have also been increasing, as the accompanying table shows.

The increase in the volume of consumption and shifts in the pattern of supply of rolled steel products are as follows, estimated in terms of net tons of raw steel equivalent:

Apparent consumption of steel in Canada has risen from 4.5 million tons in 1950 to 15.6 million tons in 1973.

Domestic production of steel has more than quadrupled from 3.4 million tons in 1950 to 14.8 million tons in 1973.

Exports of domestic steel have risen from 255,000 tons in 1950 to 2.3 million tons in 1973.

Imports have more than doubled, rising from 1.4 million tons in 1950 to 3.1 million tons in 1973.

TABLE V

Supply and Demand for Raw Steel^(a) and Percent Change, 1950-1973

Canada

(Thousands of Net Tons in Terms of Raw Steel Equivalent)

	Production	% Change over Previous Year	Imports	Exports	Net Imports (b)	Apparent Consumption	% Change over Previous Year
1950.....	3,384	—	1,414	255	1,159	4,542	—
1951.....	3,569	+ 5.5	2,118	114	2,004	5,573	+22.7
1952.....	3,703	+ 3.8	2,085	162	1,923	5,626	+ 1.0
1953.....	4,116	+11.2	1,730	295	1,435	5,551	— 1.3
1954.....	3,195	—22.4	1,430	57	1,373	4,568	—17.7
1955.....	4,534	+41.9	1,487	493	994	5,529	+21.0
1956.....	5,301	+16.9	2,912	269	2,643	7,944	+43.7
1957.....	5,068	— 4.4	3,005	407	2,598	7,666	— 3.5
1958.....	4,359	—14.0	1,841	383	1,458	5,817	—24.1
1959.....	5,901	+35.4	1,506	602	904	6,806	+17.0
Subtotal 1950-59			19,528	3,037	16,491		
1960.....	5,790	— 1.9	1,353	994	359	6,149	— 9.7
1961.....	6,466	+11.7	1,096	841	255	6,721	+ 9.3
1962.....	7,173	+10.9	1,046	990	56	7,229	+ 7.6
1963.....	8,190	+14.2	1,295	1,369	—74	8,117	+12.3
1964.....	9,128	+11.5	2,135	1,485	650	9,778	+20.5
1965.....	10,068	+10.3	2,892	1,235	1,657	11,725	+19.9
1966.....	10,020	— 0.5	2,096	1,290	806	10,827	— 7.7
1967.....	9,701	— 3.2	1,981	1,368	613	10,314	— 4.7
1968.....	11,198	+15.4	1,884	2,079	—195	11,004	+ 6.7
1969.....	10,307	— 8.0	2,934	1,423	1,511	11,818	+ 7.4
1970.....	12,346	+19.8	2,189	2,299	—110	12,236	+ 3.5
1971.....	12,170	— 1.4	3,136	2,130	1,006	13,175	+ 7.7
1972.....	13,073	+ 7.4	3,355	2,126	1,229	14,303	+ 8.6
1973.....	14,755p	+12.9	3,142p	2,270p	872p	15,627p	+ 9.3
Subtotal 1960-73			30,534	21,899	8,635		

(a) Rolled steel products including castings which amounted to 1.4% of total production in 1973.

(b) Negative net imports indicate excess of exports over imports.

SOURCE: Department of Energy, Mines and Resources, Minerals Resources Branch, unpublished study, and Statistics Canada, *Primary Iron and Steel*, 1950-1973, December issues.

A recent study of fluctuations in the international steel market reaches the conclusion that imports and exports tend to act as buffers for most steel producing countries, cushioning the domestic industry against more extreme fluctuations because imports are drawn in when demand approaches the point of straining production capacity and exports tend to rise when domestic demand eases. (c) Canadian experience appears to bear out this thesis except during the period of acute competition from Japanese steel mills.

Production of Canadian Steel

Turning to the record of production of steel going back to 1950, the greater volatility of steel production compared with total industrial production shows

(c) Lennart Fridén, *Instability in the International Steel Market—Study of Import and Export Fluctuations*, Stockholm, 1972.

up clearly. The timing and pattern of the cycles in steel production have corresponded generally with the timing of the consumption cycles, with fluctuations in steel production moderating in the 1960's and production rising steadily since 1971 at a somewhat faster rate than total industrial production.

The greater volatility of the steel industry when compared with industry in general shows up more dramatically when year-to-year variations in production are examined. The industry in the 1950's was described as tending to alternate between periods of over-supply and fierce competition and periods of acute shortage.^(a) During the first few years of the 1960's, the extent of the fluctuations moderated considerably, but competition from imports then became extremely acute and reached a climax in 1965. During the late 1960's and early 1970's, domestic steel production picked up but still showed substantially wider year-to-year fluctuations than total industrial production. However, since 1972 the industry has followed a consistently rising trend and now has reached the point of operating at virtually full capacity.

The reasons for the modification in the amplitude of the cycles in the steel industry in recent years are complex because each major category of rolling mill product has a particular market and is therefore subject to a particular set of market forces. However, the basic reason for the recent strong performance of the industry is the firm acceleration of the Canadian economy generally. To give a few examples, thin flat rolled sheets go mainly into consumer products such as cars, appliances and small household products and, while the demands for these products are subject to individual and differing cyclical influences, nevertheless steel for durable goods in general is regarded as one of the more stable sectors of the steel market. In contrast, the market for structural steel has been highly volatile depending upon the level of capital investment and is closely tied in with trends in the various sections of the construction industry. Between these two extremes are the markets for all the other rolling mill products, some of which are expected to become more stable because of the growing requirements for particular types of products such as plate and skelp for pipeline and storage facilities for the petroleum industry.

General Observations

It is apparent that the consumption of steel has followed a pattern more markedly cyclical than the consumption of goods and services in the economy as a whole, and steel production has followed a similar pattern of more pronounced fluctuations than in total industrial production. The recent high production rate in the industry is directly linked to the strong performance of the economy generally and the prospect of a slowing in economic activity is therefore viewed with concern on the part of the steelmaker who is keenly aware of the more pronounced cyclical characteristics of his industry.

Because of the cyclical nature of the steel industry, the Canadian steelmaker is constantly facing the dilemma of whether or not to increase capacity, and if so when, in order to expand his market coverage to take in part of the

(a) Royal Commission on Canada's Economic Prospects, *The Canadian Primary Iron and Steel Industry*, 1956.

domestic steel market serviced by imports. The lead time for increasing steel-making capacity is at least 3-4 years and one of Canada's primary producers recently informed the Inquiry that the cost of steel plant, that is machinery and equipment and installation, has gone up by at least 25 percent over the past 12 months. The decision to install additional capacity is therefore fraught with considerable financial risks to the steelmakers, their employees, the shareholders and the Canadian industrial community generally. If the new capacity is greater than required to service the available markets as soon as it is installed, and perhaps for a few years thereafter, the drag of higher depreciation write-offs and interest costs and the disadvantage of reduced borrowing potential is considerable. Furthermore, since the size of the Canadian steel market is very small judged by world standards, recovering from an error in forecasting demand is more difficult for the Canadian steelmaker than for his foreign competitor who has access to a much larger domestic market. It is for this combination of reasons that historically the Canadian steel industry has expanded cautiously, leaving the periods of peak demand to be serviced by a cushion of imports. This has also had the converse advantage of enabling Canadian producers to employ productive facilities to a higher degree of capacity with resultant cost advantages in this cyclical industry.

APPENDIX "J"

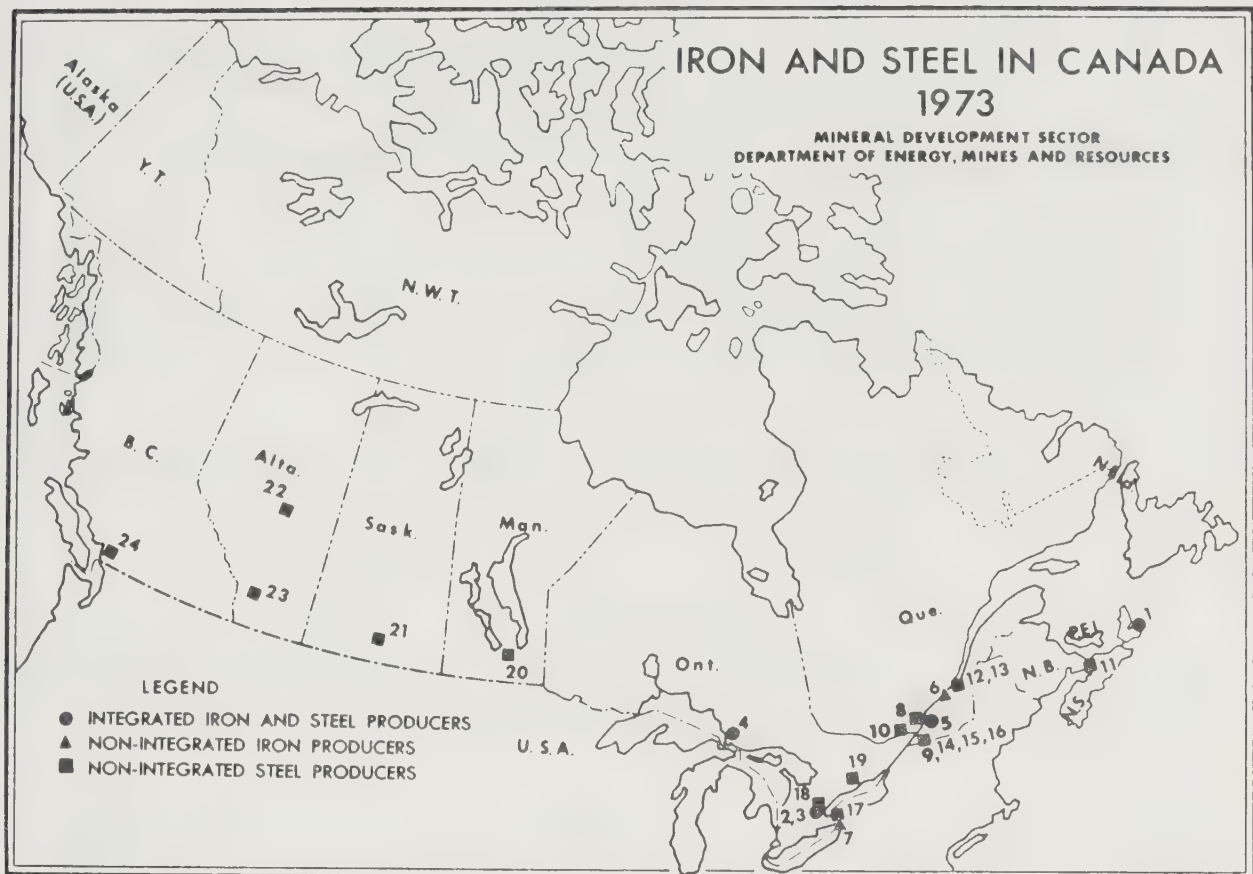
Carbon and Alloy Steel Product Lines of 11 Steel Producers

COMPANY NAME	Pig Iron	Ingots, Blooms, Billets, Slabs	Plate	Floor Plate	Skelp	Hot Rolled Sheet and Strip	Cold Rolled Sheet and Strip	Galvanized Sheet and Strip	Tin Plate Electrolytic, Hot Dipped	Painted Sheet and Strip	Electrical (Silicon) Sheet and Strip	Bars, Rods	Reinforcing Bars	Reinforcing Wire Mesh	Grader Blade Bars	Structurals (Light)	Structurals (Heavy)	Rails	Rail Accessories	Wire and Wire Rod	Sucker Rods	Nails, Fasteners, Nuts and Bolts	Fencing	Grinding Balls	Grinding Rods	Pipe and Tube	Castings	Forgings
The Algoma Steel Corporation, Limited	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Atlas Steels Company	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Burlington Steel Company	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Dominion Foundries and Steel, Limited	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Interprovincial Steel and Pipe Corporation Ltd.	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Lake Ontario Steel Company Limited	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Manitoba Rolling Mills	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Sidbec-Dosco Ltée	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
The Steel Company of Canada, Limited	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Sydney Steel Corporation	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Western Canada Steel Limited	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

SOURCE: Adapted from Department of Industry, Trade and Commerce, *Iron and Steel from Canada, 1972* with deletions and additions to update data.

APPENDIX "K"

"Iron and Steel in Canada, 1973"



Integrated Iron and Steel Producers

1. Sydney Steel Corporation (Sydney)
2. Dominion Foundries and Steel, Limited (Hamilton)
3. The Steel Company of Canada, Limited (Hamilton)
4. The Algoma Steel Corporation, Limited (Sault Ste. Marie)
5. Sidbec-Dosco Limited (Contrecoeur)*

Non-Integrated Iron Producers

6. Quebec Iron and Titanium Corporation (Sorel)
7. Canadian Furnace Division of Algoma (Port Colborne)

Principal Non-Integrated Steel Producers

8. The Steel Company of Canada, Limited (Contrecoeur**)
9. QSP Limited (Montreal)—to start in 1975
10. Ivaco Industries, Limited*** (L'Orignal, Ontario)
11. Enamel & Heating Products, Limited (Amherst)
12. Atlas Steels Division of Rio Algom Mines, Limited (Tracy)
13. Colt Industries (Canada) Ltd. (Sorel)

*Reduction facilities installed in 1973.

**Rolling facilities only. Electric furnace plant to be installed in 1974.

***Rolling facilities only. Electric furnace plant to be installed in 1975.

14. Canadian Steel Foundries Division of Hawker Siddeley Canada, Ltd.
(Montreal)
15. Canadian Steel Wheel Limited (Montreal)
16. Sidbec-Dosco Limited (Montreal)
17. Atlas Steels (Welland)
18. Burlington Steel Division of Slater Steel Industries Limited (Hamilton)
19. Lake Ontario Steel Company Limited (Whitby)
20. Manitoba Rolling Mills Division of Dominion Bridge Company,
Limited (Selkirk)
21. Interprovincial Steel and Pipe Corporation Ltd. (Regina)
22. Premier Works of Stelco (Edmonton)
23. Western Canada Steel Limited (Calgary)
24. Western Canada Steel Limited (Vancouver)

SOURCE: Mineral Resources Branch, Department of Energy, Mines and Resources.

APPENDIX "L"

Canadian Pig Iron Production and Capacity, 1961-1973

(net tons)

Year	Production				Annual Capacity ^(b) December 31
	Basic	Foundry ^(a)	Malleable	Total	
1961	4,204,000 ^(d)	387,000 ^(d)	356,000 ^(d)	4,946,000 ^(d)	5,529,000
1962	4,561,000 ^(d)	255,000 ^(d)	461,000 ^(d)	5,277,000 ^(d)	6,115,000
1963	5,095,081	312,651	525,538	5,933,270	6,905,000
1964	5,668,176	436,374	446,285	6,550,835	7,288,000
1965	6,315,576	492,610	271,253	7,079,439	7,643,000
1966	6,366,232	503,019	347,359	7,216,610	7,864,000
1967	6,178,938	532,442	239,423	6,950,803	9,276,000
1968	7,517,292	561,468	242,786	8,321,546	9,580,000
1969	6,538,148	616,301	276,238	7,430,687	9,580,000
1970	8,275,191	810,764 ^(c)	(c)	9,085,955	11,335,000
1971	7,835,632	780,124 ^(c)	(c)	8,615,756	10,907,000
1972	8,510,470	853,423 ^(c)	(c)	9,363,893	11,115,000
1973	9,627,429	883,565 ^(c)	(c)	10,510,994	11,145,000

(a) Includes "remelt iron" produced in the electric smelting of ilmenite at Sorel, Quebec.

(b) Capacity: the production which the given equipment will turn out in a year, working at normal efficiency, 24 hours a day, and irrespective altogether of materials and labour supply or markets, although allowing for such shutdowns as may be necessary for repairs and overhauling or rebuilding. Capacity of equipment used in the smelting of ilmenite is included.

(c) Malleable included with foundry.

(d) Total does not necessarily add to details because of rounding.

SOURCE: Statistics Canada, Mineral Resources Branch, Department of Energy, Mines and Resources, Mineral Information Bulletins MR113 and MR132, and *Iron and Steel* 1972 and 1973. EMR compiles these numbers from Statistics Canada original data.

APPENDIX "M"

Canadian Raw Steel Production 1961-1973

(000 net tons^(a))

1961.....	6,376
1962.....	7,049
1963.....	8,071
1964.....	8,968
1965.....	9,904
1966.....	9,821
1967.....	9,554
1968.....	11,058
1969.....	9,895
1970.....	12,154
1971.....	11,964
1972.....	12,892
1973.....	14,549

(a) Tonnage excludes castings.

SOURCE: Mineral Resources Branch, Department of Energy, Mines and Resources, *Iron and Steel*, various issues, as compiled from Statistics Canada.

APPENDIX "N"

Total Canadian Mill Shipments, Imports and Exports of Rolled Steel Products, 1961-1973

(000 net tons)

	Total Canadian Mill Shipments	Imports	Exports
1961.....	4,604	692	530
1962.....	5,122	638	609
1963.....	5,917	784	883
1964.....	6,710	1,348	1,033
1965.....	7,102	1,904	701
1966.....	7,128	1,245	751
1967.....	6,980	1,170	821
1968.....	8,211	1,103	1,203
1969.....	7,985	1,870	785
1970.....	9,085	1,300	1,380
1971.....	9,221	1,946	1,320
1972.....	9,830	2,105	1,338
1973.....	10,936	1,992	1,319

NOTE: Imports and Exports exclude pipe and wire.

SOURCE: Mineral Resources Branch, Department of Energy, Mines and Resources, Mineral Information Bulletins MR113 and MR132, and *Iron and Steel* 1972 and 1973. EMR compiles these numbers from Statistics Canada original data.

APPENDIX "O"

Canadian Customs Tariffs on Selected Iron and Steel Items

	British Preferential	Most Favoured Nation	General Preferential Tariff	General	Tariff Item
Iron ore	} free	} free	} free	free	32905-1
Iron and steel scrap				free	37301-1
				free	37302-1
				free	37303-1
Pig iron (\$ per ton)	}	}	}	\$2.50	37400-1
Ingots, nop (\$ per ton)				\$5.00	37700-1
Semis (blooms, billets, slabs)	free	5%	free	10%	37800-1
Bars or rods, hot-rolled	5%	10%	5%	20%	37900-1
Bars or rods, cold-rolled	5%	12½%	5%	25%	37905-1
Rods for wire manufacture (\$ per ton)	free	\$3.00	free	\$5.00	37915-1
Shapes and sections either hot-rolled or cold-rolled					
General, nop	5%	10%	5%	20%	38001-1
Large sections not made in Canada (\$ per ton)	free	\$5.00	free	\$20.00	38002-1
Plate, hot- or cold-rolled	5%	10%	5%	20%	38100-1
Sheet and strip					
Hot-rolled	5%	10%	5%	20%	38201-1
Cold-rolled	5%	12½%	5%	25%	38202-1
Coated with tin or enamel	10%	12½%	8%	25%	38203-1
Galvanized	7½%	12½%	7½%	25%	38204-1
Skelp (plate and sheet for pipe)	free	7½%	free	15%	38400-1
Rails	5%	10%	5%	20%	38700-1
Castings, nop	15%	15%	10%	27½%	39000-1
Forgings	15%	17½%	11½%	30%	39200-1
Pipe, large diameter	10%	15%	10%	30%	39900-1
Wire, round, nop	2½%	7½%	2½%	20%	40101-1
Wire, other, nop	5%	10%	5%	20%	40102-1
Wire coated or covered, nop	5%	10%	5%	20%	40103-1

nop Not otherwise provided for.

SOURCE: The Customs Tariff and Amendments, Department of National Revenue, Customs and Excise Division. Further details and specific variations may be obtained from that Department. Table verified with Revenue Canada, Customs and Excise Branch, Toronto.

APPENDIX “P”

Canadian and United States Base Price Comparisons
as at January 1955, 1959, 1963, 1966-1969, and December 1969

(Dollars per 100 pounds, unless indicated otherwise)

	<u>1955</u>	<u>1959</u>	<u>1963</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>December</u> <u>1969</u>
Structural Steel Shapes, Carbon								
United States—Pittsburgh, Pa. (U.S. \$).....	4.25	5.50	5.50	5.70	5.85	5.85	6.20	6.55
United States (Can. \$).....	4.11	5.30	5.90	6.13	6.34	6.32	6.65	7.05
Canada—Sault Ste. Marie (Can. \$).....	4.60	5.50	5.50	5.75	5.95	5.95	5.95	6.35
Steel Plate, Carbon								
United States—Pittsburgh, Pa. (U.S. \$).....	4.15	5.30	5.30	5.55	5.55	5.75	6.10	6.45
United States (Can. \$).....	4.01	5.11	5.69	5.97	6.02	6.21	6.54	6.94
Canada—Hamilton (Can. \$).....	4.95	5.45	5.45	5.45	5.45	5.45	5.45	5.85
Hot-Rolled Sheet, Carbon								
United States—Pittsburgh, Pa. (U.S. \$).....	4.05	5.10	5.10	5.30	5.45	5.45	5.25	6.15
United States (Can. \$).....	3.91	4.92	5.47	5.70	5.91	5.89	5.63	6.62
Canada—Hamilton (Can. \$).....	4.35	4.95	4.95	5.15	5.35	5.35	5.35	5.70
Cold-Rolled Sheet, Carbon								
United States—Pittsburgh, Pa. (U.S. \$).....	4.95	6.28	6.28	6.53	6.68	6.93	7.20	7.60
United States (Can. \$).....	4.78	6.06	6.74	7.02	7.24	7.49	7.72	8.18
Canada—Hamilton (Can. \$).....	5.50	6.35	6.35	6.60	6.80	6.80	6.80	7.20
Merchant Bars, Carbon								
United States—Pittsburgh, Pa. (U.S. \$).....	4.30	5.68	5.68	5.93	5.88	6.03	6.33	6.68
United States (Can. \$).....	4.15	5.48	6.10	6.37	6.37	6.52	6.79	7.19
Canada—Hamilton (Can. \$).....	4.60	5.40	5.40	5.65	5.65	5.65	5.65	6.20
Galvanized Sheets (1.25 oz.)								
United States—Pittsburgh, Pa. (U.S. \$).....	5.45	6.88	6.88	7.53	7.53	7.78	7.98	8.20
United States (Can. \$).....	5.26	6.64	7.38	8.09	8.16	8.41	8.56	8.83
Canada—Hamilton (Can. \$).....	6.10	6.70	6.70	6.90	7.00	7.00	7.00	7.45
Tin Plate Sheets (80 lb. base weight, .25 coating, over 29" to 33½" wide)								
United States—Pittsburgh, Pa. (U.S. \$).....	6.60	8.20	8.20	8.45	8.45	8.70	8.70	8.70(a)
United States (Can. \$).....	6.37	7.91	8.80	9.08	9.16	9.40	9.33	9.36
Canada—Hamilton (Can. \$).....	7.30	7.90	8.20	8.55	8.55	8.90	8.90	8.95

(a) \$9.20 effective February 2, 1970.

SOURCE: Prices and Incomes Commission, *Steel and Inflation*, February 1970, Table 2-1.

Canadian and United States Base Price Comparisons as at
January 1971, 1972, 1973, 1974; June, July and October, 1974

(Dollars per 100 pounds, unless indicated otherwise)

(Continued)

	Jan. 1971	Jan. 1972	Jan. 1973	Jan. 1974	June 1974	July 1974	Oct. 1974
Structural Steel Shapes, Carbon							
United States—Pittsburgh, Pa. (U.S. \$).....	6.90	8.10	8.50	8.50	9.80	10.80	11.30
United States (Can. \$).....	6.99	8.16	8.49	8.43	9.46	10.43	11.11
Canada—Sault Ste. Marie (Can. \$).....	6.70	7.05	7.45	8.20	9.05	9.05	9.05
Steel Plate, Carbon							
United States—Pittsburgh, Pa. (U.S. \$).....	6.80	8.15	8.50	8.50	9.50	11.35	11.85
United States (Can. \$).....	6.89	8.21	8.49	8.43	9.17	10.96	11.65
Canada—Hamilton (Can. \$).....	6.20	6.55	6.90	7.85	8.95	8.95	8.95
Hot Rolled Sheet, Carbon							
United States—Pittsburgh, Pa. (U.S. \$).....	7.30	8.15	8.15	8.475	9.35	10.80	10.80
United States (Can. \$).....	7.40	8.21	8.14	8.41	9.03	10.43	10.61
Canada—Hamilton (Can. \$).....	6.00	6.35	6.70	7.05	7.70	7.70	7.70
Cold Rolled Sheets, Carbon							
United States—Pittsburgh, Pa. (U.S. \$).....	8.25	8.60	9.375	9.60	10.60	12.30	13.05
United States (Can. \$).....	8.36	8.66	9.37	9.52	10.23	11.88	12.83
Canada—Hamilton (Can. \$).....	7.55	7.95	8.35	8.80	9.50	9.50	9.50
Merchant Bars, Carbon							
United States—Pittsburgh, Pa. (U.S. \$).....	7.13	8.25	8.375	8.375	9.60	10.75	n/a
United States (Can. \$).....	7.23	8.31	8.37	8.31	9.27	10.38	
Canada—Hamilton (Can. \$).....	6.50	6.85	7.35	8.45	9.65	9.65	9.65
Galvanized Sheets (1.25 oz.)							
United States—Pittsburgh, Pa. (U.S. \$).....	9.30	9.975	9.975	10.25	11.60	13.95	14.70
United States (Can. \$).....	9.43	10.05	9.97	10.17	11.20	13.47	14.45
Canada—Hamilton (Can. \$).....	7.80	8.10	8.50	9.07	9.90	9.97	10.04
Tin Plate Sheets (80 lb. basis weight, .25 lb. coating, over 29" to 33½" wide) (\$/BB)							
United States—Pittsburgh, Pa. (U.S. \$).....	9.85	10.50	10.50	11.05	13.55	13.55	15.05
United States (Can. \$).....	9.98	10.58	10.06	10.96	13.08	13.08	14.79
Canada—Hamilton (Can. \$).....	9.40	9.90	10.15	10.70	12.00	12.00	13.30

Canadian and United States Base Price Comparisons as at January 1971, 1972, 1973, 1974; June, July and October, 1974 (Continued)

- NOTES: (1) Canadian base prices are those for The Steel Company of Canada, Limited, except for Structural Steel Shapes, Carbon, which are those of The Algoma Steel Corporation, Limited.
- (2) Adjustments in pricing methods in Hot Rolled Sheets, Cold Rolled Sheets (and H.R. & C.R. Strip) in 1971 and 1973, and in Galvanized Sheets in 1973, resulted in higher base prices than indicated above. Adjustments to published lists were made to return prices to a base comparable to those in effect previously. These adjustments are detailed in the exhibit "The Steel Company of Canada, Limited, Rolling Mill Products Price History—Jan. 1, 1970–May 15, 1974."
- (3) Table 2-1 of "Steel and Inflation" (Prices & Incomes Commission) indicates that the base prices are in \$ per cwt. In the case of tinplate sheets, this appears to be in error, and the price is in \$ per base box. We have used \$ per base box.
- (4) Sources for U.S. prices are as follows:
- Jan. 1971—"American Metal Market" Jan. 12, 1971.
 - Jan. 1972—"American Metal Market" Jan. 24, 1972.
 - Jan. 1973—"Iron Age" Jan. 4, 1973.
 - Jan. 1974—"Iron Age" Jan. 7, 1974.
 - June 1974—"Iron Age" June 3, 1974.
 - July 1974—"American Metal Market" July 3, 1974.
 - Oct. 1974—"American Metal Market" October 15, 1974
- except for Tinplate Sheets, which were calculated by Stelco Product Sales using actual U.S. price lists. U.S. price controls were in effect from Aug. 15/71 to April 30/74.
- (5) U.S. prices converted to Canadian dollars at the following exchange rates and as reported by the Royal Bank of Canada:
- | | |
|-----------|--------------------------|
| Jan. 1971 | U.S. \$1 = Can. \$1.0134 |
| Jan. 1972 | U.S. \$1 = Can. \$1.0072 |
| Jan. 1973 | U.S. \$1 = Can. \$0.9994 |
| Jan. 1974 | U.S. \$1 = Can. \$0.9922 |
| June 1974 | U.S. \$1 = Can. \$0.9656 |
| July 1974 | U.S. \$1 = Can. \$0.9656 |
| Oct. 1974 | U.S. \$1 = Can. \$0.9828 |
- (6) U.S. sheet prices were adjusted from 1971 onwards by deducting 20 cents, 70 cents and 55 cents from the published list prices for Hot Rolled Sheets, Cold Rolled Sheets and Galvanized Sheets, respectively, to reflect changes in the base for these products which eliminated certain extras previously charged. (SOURCES: *Globe & Mail*, May 1, 1970 and *American Metal Market*, May 4, 1970.)
- n/a Not available.
- SOURCE: The Steel Company of Canada, Limited and The Algoma Steel Corporation, Limited.

APPENDIX "Q"

Conscious Parallelism and Basing Point Price Systems

(a) *Conscious Parallelism*

"Conscious parallelism" is the term used to describe situations where firms act in parallel fashion usually following the practice of the price leader in the industry and often with knowledge of each other's parallelism. The issue has arisen in several cases in the United States: *Interstate Circuit, Inc., v. U.S.* 306 U.S. 208 (1939) and *Theatre Enterprises Inc. v. Paramount Film Distributing Corp.* 346 U.S. 537 (1954). In the first case the Supreme Court of the United States found that a certain pricing arrangement relating to the distribution and exhibition of motion pictures was sufficient evidence to draw an inference that conspiracy in restraint of trade had been established contrary to the provisions of section 1 of the Sherman Act. However, in the second case, the Supreme Court stated that conscious parallelism itself does not constitute a Sherman Act offence but said it was an important factor to consider in looking at all the circumstances.

(b) *Basing Point Price Systems*

A variant of conscious parallelism is a delivered price system or "basing point" price practices. Often a purchaser will buy goods "f.o.b." the seller's plant or factory and arrange on his own for the transportation of the goods. However, the seller's price alternatively can include the transportation costs to the purchaser's location. Where transportation costs are significant, it may be attractive to a seller to establish a uniform price within certain geographical areas, by using a basing point. The U.S. steel industry, for example, used Pittsburgh as a basing point or "Pittsburgh plus" as it became known. Under this arrangement, purchasers paid the steel producer's mill price plus rail charges to the purchaser's location from Pittsburgh, regardless of the actual point of shipment or the real freight charges involved. When other basing points are employed an intricate network of multiple basing points can be effected.

The United States courts have held such systems to be in contravention of the U.S. anti-trust laws as an unfair method of competition: *F.T.C. v. Cement Institute* 333 U.S. 683 (1948), *Triangle Conduit & Cable Co. v. F.T.C.* 168 F. 2d 175 (7th Cir. 1948), *aff'd* 336 U.S. 956 (1949).

In Canada, there has been little comment on either conscious parallelism or basing point price policies. It is interesting to note that in *R. v. Canada Cement La Farge Limited* (Provincial Court—Criminal Division before His Honour Judge W. L. Camblin, 1 October, 1973) the court dismissed charges of unlawfully conspiring or agreeing to prevent or lessen, unduly, competition contrary to section 32(1)(c) of the Combines Investigation Act, R.S.C. 1970 Ch. C-23 by adopting and using a basing point system of delivered pricing for cement and related products. In reaching its conclusion, the court quoted with implicit approval a speech of the then Director of Investigation under the Combines Act, in which he said, *inter alia*, that conscious parallelism without collusion is not an offence under Canadian law.

APPENDIX "R"

Summary of a Statement Representing the Views of a Group of Steel Industry Investment Analysts within the Canadian Investment Community

A careful and helpful submission was made to the Inquiry by a group of steel industry investment analysts within the Canadian investment community. This submission was supported by a written brief and assembled data (Exhibits 82 and 83). In this submission the profit margin of each of the three major Canadian steel producers was examined. While the methods of assessing profit margins used by these analysts were not exactly parallel to those used by the Inquiry they constitute, as to the conclusions reached by the Inquiry, a useful source of comparison and confirmation.

This submission dealt first with historic profit relationships in the Canadian steel industry in the period from 1959 to 1973 inclusive. Profit margins were treated first on three bases:

- A. Operating Profit Margin;
- B. Pre-tax Profit Margin;
- C. Net Profit Margin.

Graphic illustrations of their conclusions, together with definitions of the three bases referred to above, may be seen from Charts I, I-A and I-B, comprising part of Exhibit 83 and reproduced as part of this Appendix. The submission indicates that notwithstanding gains in output, a buoyant market, improvements in productivity and increases in selling prices, the two largest producers have barely succeeded in regaining historical levels in their profit margins and have not been able to exceed the levels attained some ten years ago. The third major producer, who has recently reported the largest profit margin increases, remains farthest below his historical levels. The submission puts it that the price increases instituted, at least to the end of 1973 (and the analysts did not have the advantage of the data with respect to 1974 which has been made available to the Inquiry), had not been sufficiently large to offset the rapidly rising costs with which the producers were faced.

The submission then went on to consider profits relative to investments having regard for stockholders' equity, invested capital and total invested capital. Graphs representing their conclusions in this regard and their definitions are found in Charts 2, 2-A and 2-B comprising part of Exhibit 83 and reproduced herewith. Once again the conclusion is that recent performance has not enabled the companies to regain their previous high levels.

A consideration of profits relative to assets utilized, to shipments of steel and to employment in the industry produced similar conclusions.

The conclusions of the group may be summarized in the following terms:

- A. There has been, by the standards of the past fifteen years, little or no appreciable net improvement in the steel companies' profitability,

however measured. This argument could be made with even greater effect if one were to take into consideration the decline in the purchasing power of the dollars representing the steel producers' profits over this period of time.

- B. The primary steel producers have been sorely pressed to even maintain the levels of profitability enjoyed ten and fifteen years ago.
- C. There are a number of methods of measuring profitability, any single one of which, if taken in isolation, is inadequate.
- D. One cannot and should not attempt to select any particular level of profitability, however measured, as being adequate or excessive, e.g. a rate of return adequate some years ago might be quite inappropriate in an era of high interest rates and rapid inflation.

It is interesting to note that their conclusion that no single method of measuring profitability was adequate is in accord with the overwhelming weight of the evidence before the Inquiry and with its conclusions in this regard.

The submission went on to a consideration of shareholders' returns from the three major producers. While this is not directly relevant to the questions before the Inquiry it is perhaps of interest to note their conclusion that, in the main, investors in shares of the steel industry would in the last ten years have been little better off than investors in Canada Savings Bonds whose investment was without risk and entirely liquid throughout its term.

Chart I, Dofasco

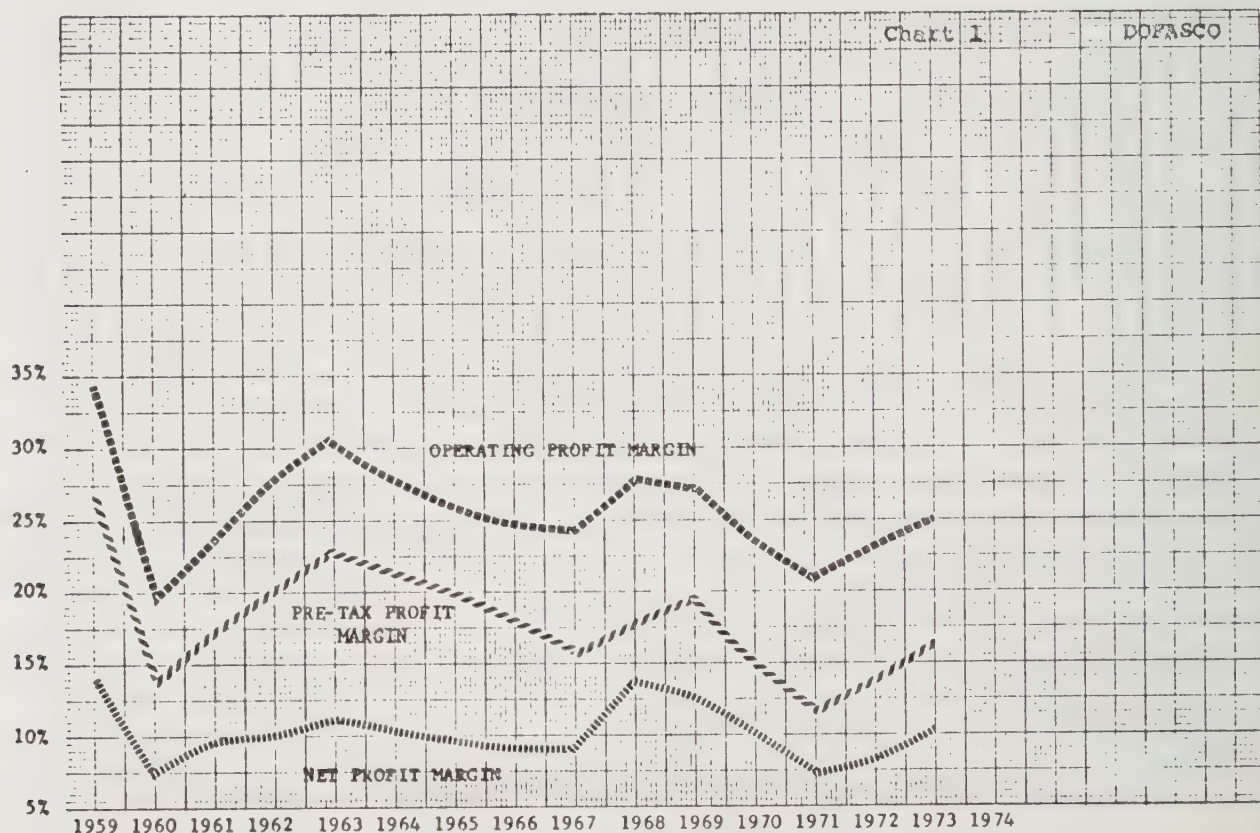


Chart I-A, Stelco

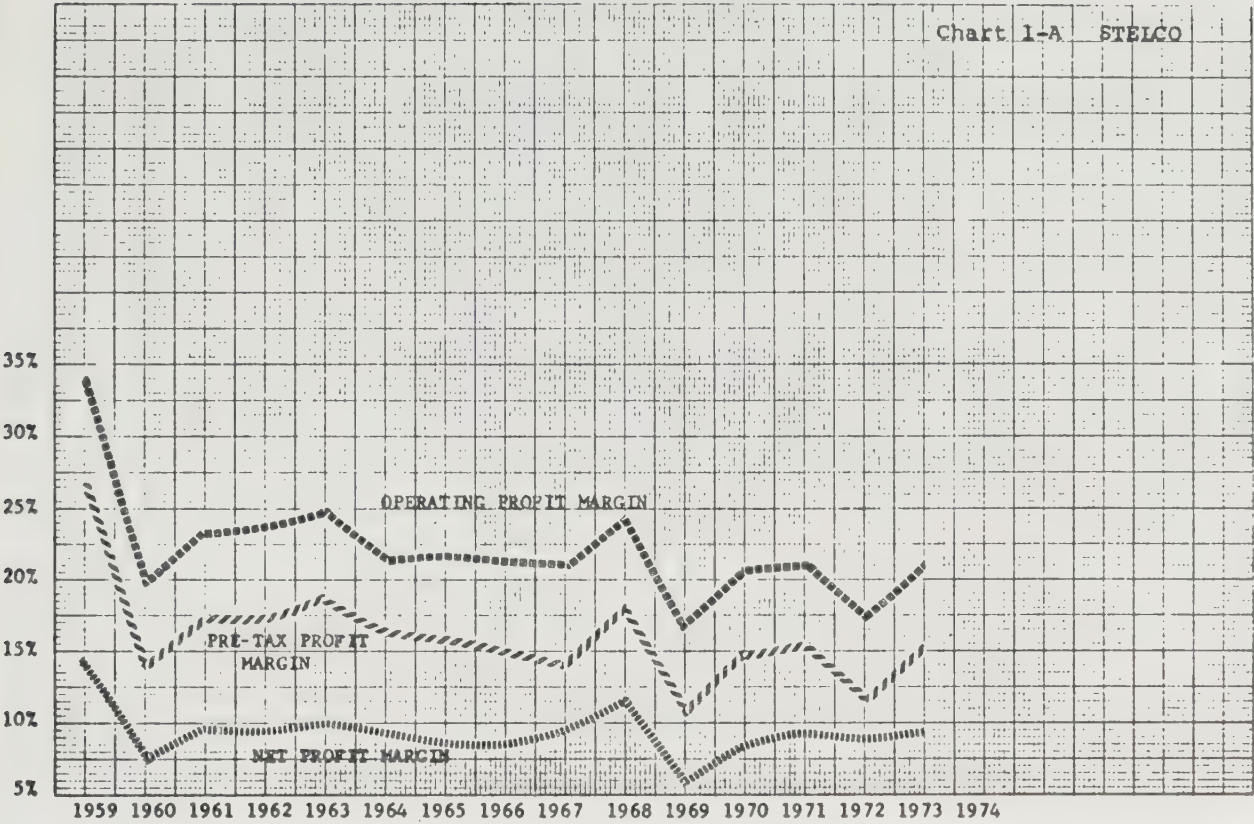


Chart I-B, Algoma

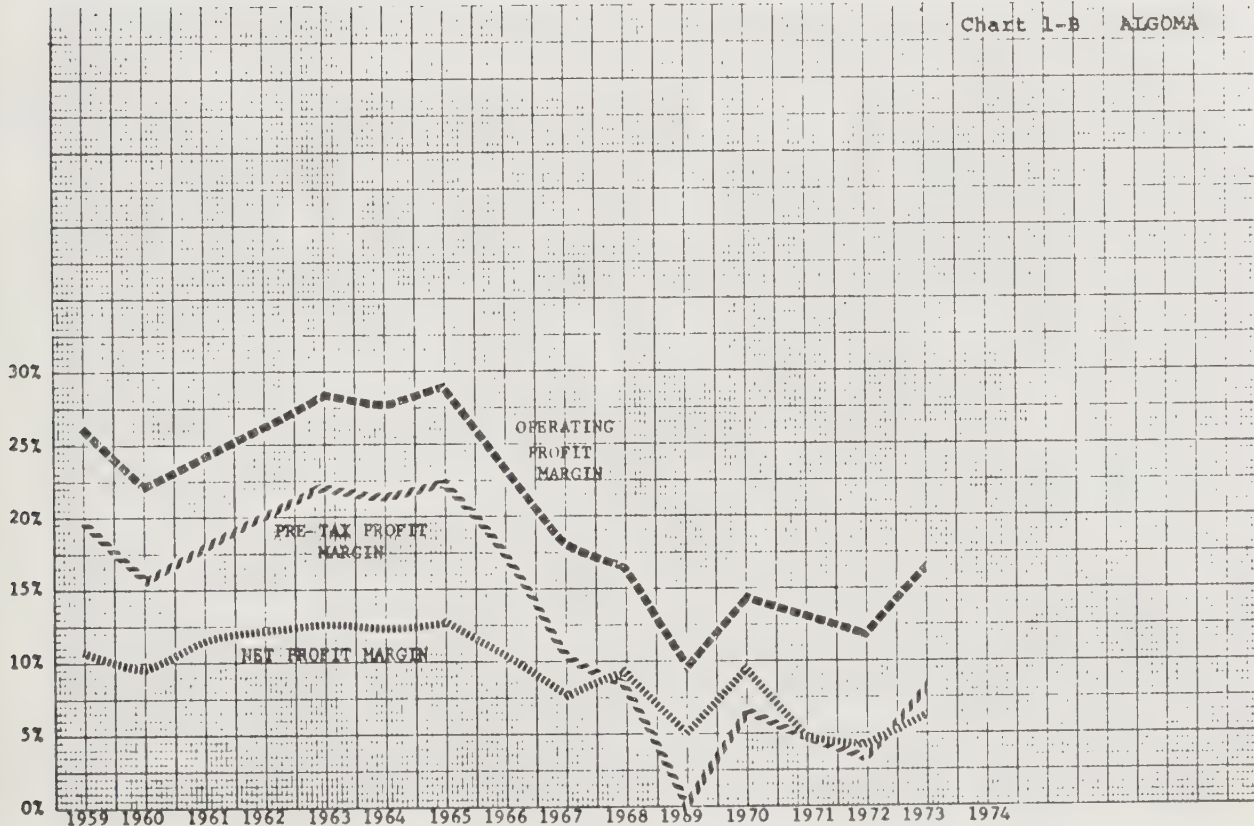


Chart 2, Dofasco

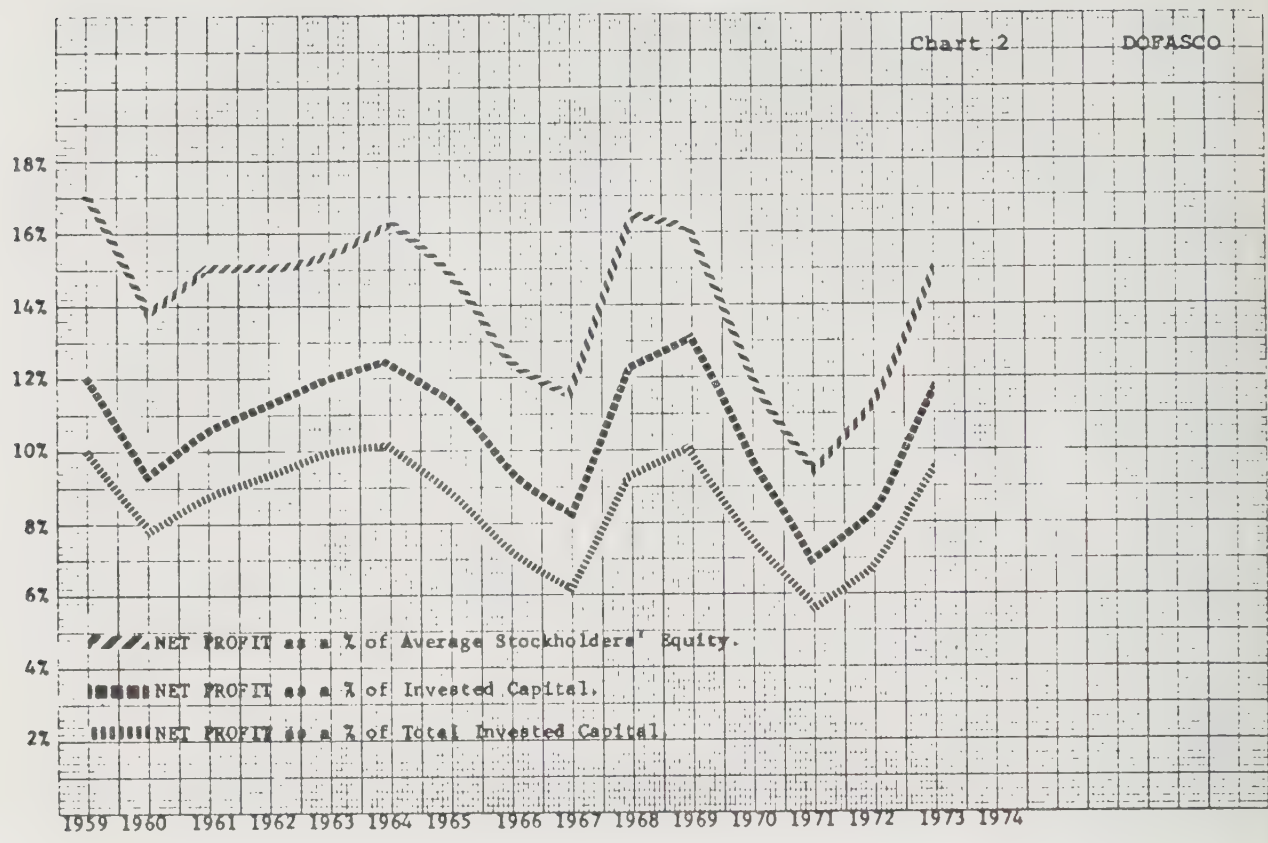


Chart 2-A, Stelco

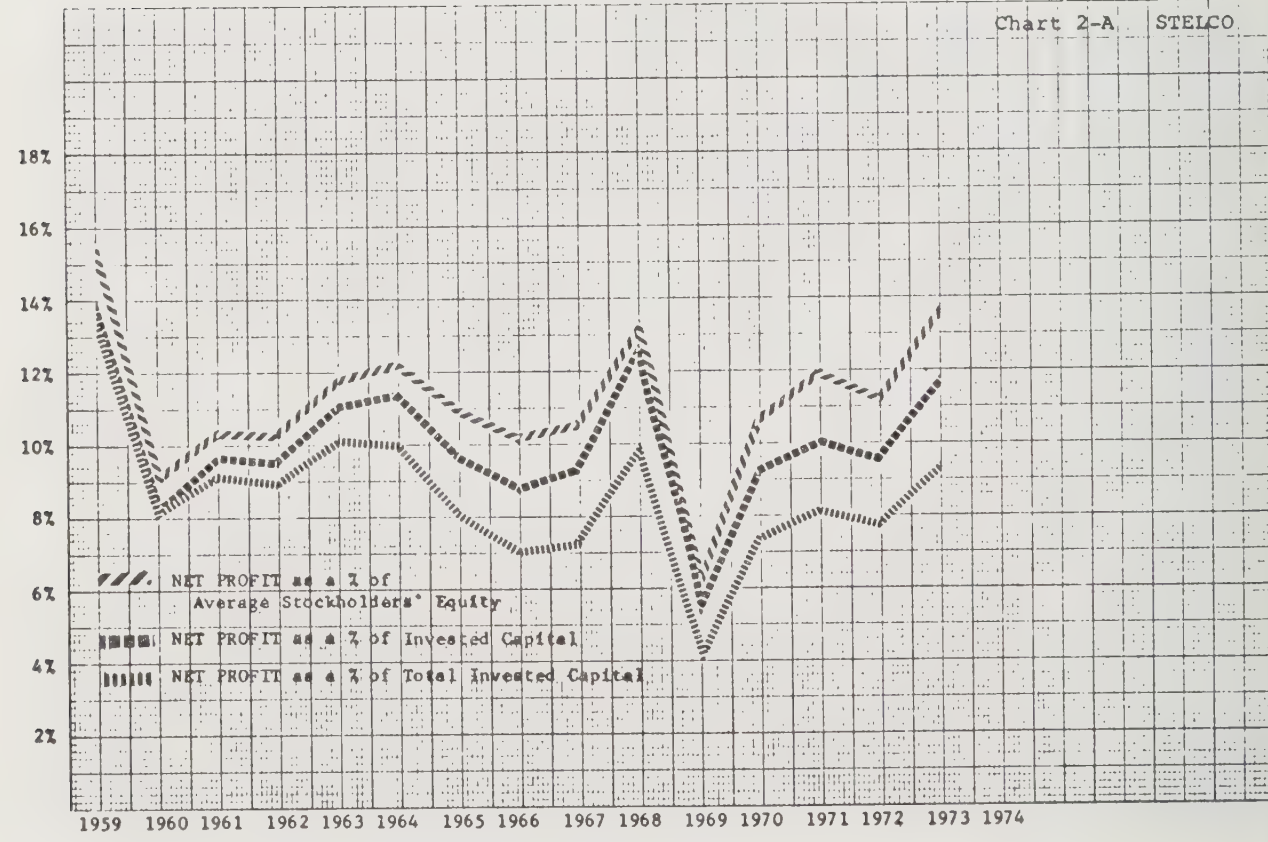
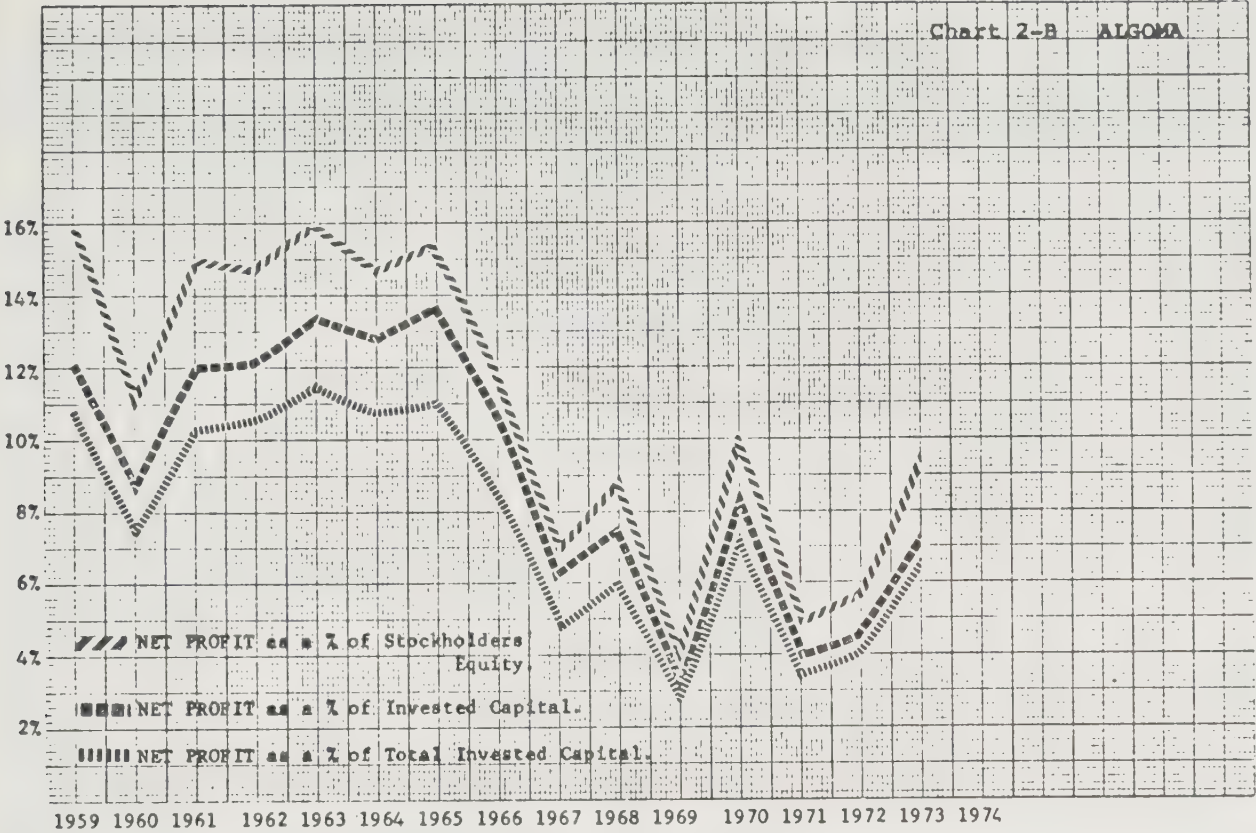


Chart 2-B, Algoma



APPENDIX "S"

Consolidated Earnings Statements and Balance Sheets for The Steel Company of Canada, Limited; The Algoma Steel Corporation, Limited and Dominion Foundries and Steel, Limited

The Steel Company of Canada, Limited and Subsidiary Companies

Consolidated Statement of Income and Retained Earnings (thousands of dollars)

	Three months ended March 31		Year ended December 31				
	1974	1973	1973	1972	1971	1970	1969
	(unaudited)						
REVENUE							
Sales.....	\$261,822	\$226,635	\$937,662	\$775,931	\$730,247	\$663,202	\$528,037
Income from corporate joint ventures (Note 6).....	179	218	1,969	1,661	1,336	1,122	1,147
Income from short-term investments...	1,031	21	1,417	420	1,748	1,974	3,448
	<u>263,032</u>	<u>226,874</u>	<u>941,048</u>	<u>778,012</u>	<u>733,331</u>	<u>666,298</u>	<u>532,632</u>
EXPENSE							
Cost of sales, exclusive of the following items.....	214,161	183,055	741,881	639,924	577,326	524,018	439,693
Provision for depreciation (Note 4)....	12,300	12,300	46,666	39,738	37,068	37,466	33,415
Interest on long-term debt.....	2,041	2,065	8,240	8,369	8,542	3,777	3,034
Provision for income taxes (Note 10)							
current.....	5,276	6,488	22,640	12,578	34,465	38,933	23,270
deferred.....	7,500	4,500	33,937	10,314	9,285	1,897	1,583
	<u>241,278</u>	<u>208,408</u>	<u>853,364</u>	<u>710,923</u>	<u>666,686</u>	<u>606,091</u>	<u>500,995</u>
NET INCOME FOR THE PERIOD.....	21,754	18,466	87,684	67,089	66,645	60,207	31,637
RETAINED EARNINGS							
at beginning of period.	540,303	484,643	484,643	448,317	412,102	381,097	374,486
Add: Inventory valuation adjustment affecting prior years (Note 5)....	—	—	—	—	—	—	4,175
	<u>562,057</u>	<u>503,109</u>	<u>572,327</u>	<u>515,406</u>	<u>478,747</u>	<u>441,304</u>	<u>410,298</u>
Deduct: Dividends declared including extra distributions.....	8,626	7,387	32,024	30,763	30,430	29,202	29,201
RETAINED EARNINGS AT END OF PERIOD.....	<u>\$553,431</u>	<u>\$495,722</u>	<u>\$540,303</u>	<u>\$484,643</u>	<u>\$448,317</u>	<u>\$412,102</u>	<u>\$381,097</u>
NET INCOME PER SHARE FOR THE PERIOD (calculated on the weighted average number of shares outstanding).....							
	\$0.88	\$0.75	\$3.56	\$2.73	\$2.74	\$2.47	\$1.30

SOURCE: The Steel Company of Canada, Limited 10⁷/₈% Sinking Fund Debentures' Prospectus,
dated 22 August 1974

**The Steel Company of Canada, Limited
and Subsidiary Companies**

Consolidated Statement of Financial Position
(thousands of dollars)

	March 31 1974 (unaudited)	December 31 1973
CURRENT ASSETS		
Cash	\$ 1,905	\$ 11,732
Short-term investments, at cost (approximates market value)	50,839	45,677
Accounts receivable	128,203	120,954
Inventories (Note 5)	179,486	192,257
Prepaid expenses	3,425	2,822
	<u>363,858</u>	<u>373,442</u>
CURRENT LIABILITIES		
Accounts payable and accrued	98,003	106,176
Provision for income and other taxes (Note 10)	21,553	38,135
Dividends payable	8,626	9,856
Current portion of long-term debt	740	740
	<u>128,922</u>	<u>154,907</u>
WORKING CAPITAL	<u>234,936</u>	<u>218,535</u>
OTHER ASSETS		
Long-term intercorporate investments (Note 6)	35,765	34,937
Fixed assets, less depreciation (Note 7)	737,650	734,093
Unamortized debenture issue expense	815	815
	<u>774,230</u>	<u>769,845</u>
TOTAL INVESTMENT	<u>1,009,166</u>	<u>988,380</u>
OTHER LIABILITIES		
Long-term debt (Note 8)	103,803	103,803
Provision for deferred income taxes	213,035	205,535
	<u>316,838</u>	<u>309,338</u>
SHAREHOLDERS' EQUITY	<u>\$ 692,328</u>	<u>\$679,042</u>
Derived from:		
Common Shares—no par value (Notes 12 and 13)		
Authorized—35,000,000 shares		
Issued—March 31, 1974: 24,645,599	\$ 138,897	
—December 31, 1973: 24,639,399		\$138,739
Retained Earnings in use in the business	553,431	540,303
SHAREHOLDERS' EQUITY	<u>\$ 692,328</u>	<u>\$679,042</u>

Signed on behalf of the Board:

(Signed) J. P. GORDON, Director (Signed) H. M. GRIFFITH, Director

SOURCE: The Steel Company of Canada, Limited 10 $\frac{7}{8}$ % Sinking Fund Debentures' Prospectus, dated 22 August 1974

**The Algoma Steel Corporation, Limited
and Subsidiaries**

Consolidated Earnings
(in thousands)

	Year ended December 31				
	1969	1970	1971	1972	1973
INCOME:					
Net sales.....	\$183,063	\$257,356	\$271,796	\$310,045	\$376,241
Other.....	2,217	1,427	1,400	313	358
	<u>185,280</u>	<u>258,783</u>	<u>273,196</u>	<u>310,358</u>	<u>376,599</u>
EXPENSE:					
Cost of products sold.....	160,570	214,675	230,208	262,987	303,895
Administrative and selling.....	5,609	6,427	7,252	9,407	9,927
Recovery of doubtful receivables.....	—	(500)	(1,274)	(1,461)	—
Interest and expense on long term debt...	3,087	3,096	5,284	5,899	6,449
Interest on short term loans.....	—	895	999	707	2,100
Depreciation and amortization (Note 2)...	17,532	18,293	18,890	20,620	23,477
	<u>186,798</u>	<u>242,886</u>	<u>261,359</u>	<u>298,159</u>	<u>345,848</u>
	(1,518)	15,897	11,837	12,199	30,751
INCOME TAXES (Note 3)					
Current.....	(2,143)	255	171	110	17
Deferred.....	(7,629)	(6,625)	—	(410)	7,519
	<u>(9,772)</u>	<u>(6,370)</u>	<u>171</u>	<u>(300)</u>	<u>7,536</u>
EARNINGS BEFORE EQUITY IN EARNINGS OF ASSOCIATED COMPANY AND EXTRAORDI- NARY CREDITS.....	<u>8,254</u>	<u>22,267</u>	<u>11,666</u>	<u>12,499</u>	<u>23,215</u>
EQUITY IN EARNINGS OF ASSOCIATED COMPANY	<u>1,947</u>	<u>2,506</u>	<u>2,751</u>	<u>3,334</u>	<u>5,340</u>
EARNINGS BEFORE EXTRAORDINARY CREDITS...	<u>10,201</u>	<u>24,773</u>	<u>14,417</u>	<u>15,833</u>	<u>28,555</u>
EXTRAORDINARY CREDITS					
Gain on sale of Canada Steamship Lines, Limited shares.....	—	—	21,504	—	—
Equity in extraordinary gains of associated company.....	299	477	—	2,608	—
NET EARNINGS (Note 1).....	<u>\$ 10,500</u>	<u>\$ 25,250</u>	<u>\$ 35,921</u>	<u>\$ 18,441</u>	<u>\$ 28,555</u>
EARNINGS PER SHARE					
Earnings before extraordinary credits.....	\$.88	\$ 2.13	\$ 1.24	\$ 1.37	\$ 2.45
Net earnings.....	\$.90	\$ 2.18	\$ 3.10	\$ 1.59	\$ 2.45

Consolidated Retained Earnings
(in thousands)

Balance at beginning of year.....	\$222,538	\$222,881	\$242,327	\$272,449	\$285,092
Net earnings.....	10,500	25,250	35,921	18,441	28,555
	<u>233,038</u>	<u>248,131</u>	<u>278,248</u>	<u>290,890</u>	<u>313,647</u>
Dividends paid.....	10,157	5,804	5,799	5,798	7,252
Balance at end of year.....	<u>\$222,881</u>	<u>\$242,327</u>	<u>\$272,449</u>	<u>\$285,092</u>	<u>\$306,395</u>

(See accompanying Notes to Consolidated Financial Statements)

SOURCE: The Algoma Steel Corporation, Limited 10³/₈% Sinking Fund Debentures' Prospectus, dated 16 May 1974

**The Algoma Steel Corporation, Limited
and Subsidiaries**

Consolidated Balance Sheet

As at December 31, 1973

(in thousands)

Assets

CURRENT:

Marketable investments, at cost which approximates market	\$ 600
Accounts receivable	51,374
Inventories (Note 4)	75,888
Prepaid expenses	3,412
Total current assets	<u>131,274</u>

NON-CURRENT ACCOUNT RECEIVABLE	<u>2,500</u>
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LONG TERM INVESTMENTS:

Associated company (Note 5)	45,998
Other (Note 6a)	6,120
	<u>52,118</u>

FIXED ASSETS:

Property, plant and equipment, at cost (Note 6b)	642,698
Mine development, at cost	20,291
	<u>662,989</u>
Accumulated depreciation, depletion and amortization	296,842
	<u>366,147</u>

UNAMORTIZED DEBENTURE EXPENSE	640
	<u>\$552,679</u>

Liabilities

CURRENT:

Cheques outstanding less cash on deposit	\$ 9,371
Accounts payable and accrued liabilities	54,813
Taxes payable	3,929
	<u>68,113</u>

LONG TERM DEBT (Note 8)	<u>104,124</u>
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ACCRUED PAST SERVICE PENSION COST (Note 9)	15,869
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DEFERRED INCOME TAXES	<u>46,597</u>
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MINORITY INTEREST IN SUBSIDIARIES

Preferred shares	\$ 35	
Common shares	19	<u>54</u>

SHAREHOLDERS' EQUITY (Note 10)

Capital Stock	
Shares of no par value	
Authorized—30,186,704	
Issued —11,635,128	11,527
Retained earnings	306,395
	<u>317,922</u>
	<u>\$552,679</u>

Approved on behalf of the Board:

(Signed) J. B. BARBER, Director

(Signed) J. D. BARRINGTON, Director

(See accompanying Notes to Consolidated Financial Statements)

SOURCE: The Algoma Steel Corporation, Limited 10 $\frac{3}{8}$ % Sinking Fund Debentures' Prospectus, dated 16 May 1974

Dominion Foundries and Steel, Limited

Consolidated Statement of Income

(Thousands of Dollars)

	Year ended December 31				
	1973	1972	1971	1970	1969
Sales.....	\$519,558	\$443,775	\$380,723	\$331,658	\$332,610
Cost of sales (excluding the following items)...	384,343	334,255	295,011	247,988	235,522
Depreciation.....	34,940	32,922	28,764	26,246	26,387
Allotted for employees' profit sharing.....	10,033	6,774	5,429	5,623	6,493
Interest on long term debt (less discount on purchase of debentures).....	7,580	9,053	8,245	3,977	3,530
	<u>436,896</u>	<u>383,004</u>	<u>337,449</u>	<u>283,834</u>	<u>271,932</u>
Income from operations.....	82,662	60,771	43,274	47,824	60,678
Income from investments.....	934	270	485	1,133	2,617
Income from corporate joint ventures.....	1,145	582	660	445	496
Income before income taxes.....	<u>84,741</u>	<u>61,623</u>	<u>44,419</u>	<u>49,402</u>	<u>63,791</u>
Income taxes (note 9).....	32,200	25,500	16,400	16,300	21,800
Net income for year.....	<u>\$ 52,541</u>	<u>\$ 36,123</u>	<u>\$ 28,019</u>	<u>\$ 33,102</u>	<u>\$ 41,991</u>
Net income per common share (after preferred dividends).....	<u>\$ 3.29</u>	<u>\$ 2.25</u>	<u>\$ 1.74</u>	<u>\$ 2.07</u>	<u>\$ 2.64</u>

Consolidated Statement of Retained Earnings

(Thousands of Dollars)

	Year ended December 31				
	1973	1972	1971	1970	1969
Balance at beginning of period.....	\$253,203	\$231,979	\$218,919	\$200,389	\$171,839
Add:					
Net income for year.....	52,541	36,123	28,019	33,102	41,991
Discount on preferred shares purchased for cancellation.....	164	167	80	60	16
	<u>305,908</u>	<u>268,269</u>	<u>247,018</u>	<u>233,551</u>	<u>213,846</u>
Deduct:					
Dividends declared					
Preferred Shares.....	1,011	1,040	1,061	1,082	1,086
Common Shares.....	15,266	14,026	13,978	13,550	12,371
Balance at end of year.....	<u>\$289,631</u>	<u>\$253,203</u>	<u>\$231,979</u>	<u>\$218,919</u>	<u>\$200,389</u>

See accompanying Notes to Consolidated Financial Statements.

SOURCE: Dominion Foundries and Steel, Limited 10% Sinking Fund Debentures' Prospectus, dated 8 May 1974

Dominion Foundries and Steel, Limited

Consolidated Balance Sheet December 31, 1973 (Thousands of Dollars)

ASSETS

Current:	
Cash.....	\$ 11,646
Investment in short term securities at cost and accrued interest (approximating market value)	20,641
Accounts receivable.....	61,679
Inventories (note 2).....	113,073
Total current assets.....	<u>207,039</u>
Fixed (note 3):	
Land, buildings and equipment at cost.....	776,935
Less accumulated depreciation.....	<u>329,741</u>
	447,194
Investments (note 4).....	11,157
Sundry Assets.....	2,444
	<u>\$667,834</u>

LIABILITIES

Current:	
Bank indebtedness.....	\$ 2,855
Accounts payable and accrued charges.....	63,544
Amounts payable for employees' profit sharing.....	8,783
Income and other taxes payable.....	12,403
Dividends payable.....	4,181
Current requirements on long term debt (note 5).....	8,035
Total current liabilities.....	<u>99,801</u>
Long Term Debt (note 5).....	80,719
Deferred Income Taxes	<u>120,100</u>
Shareholders' Equity (notes 6 and 7):	
Preferred shares.....	21,088
Common shares.....	56,495
Retained earnings.....	289,631
Total shareholders' equity.....	<u>367,214</u>
	<u>\$667,834</u>

On behalf of the Board:

(Signed) W. C. Hassel, Director

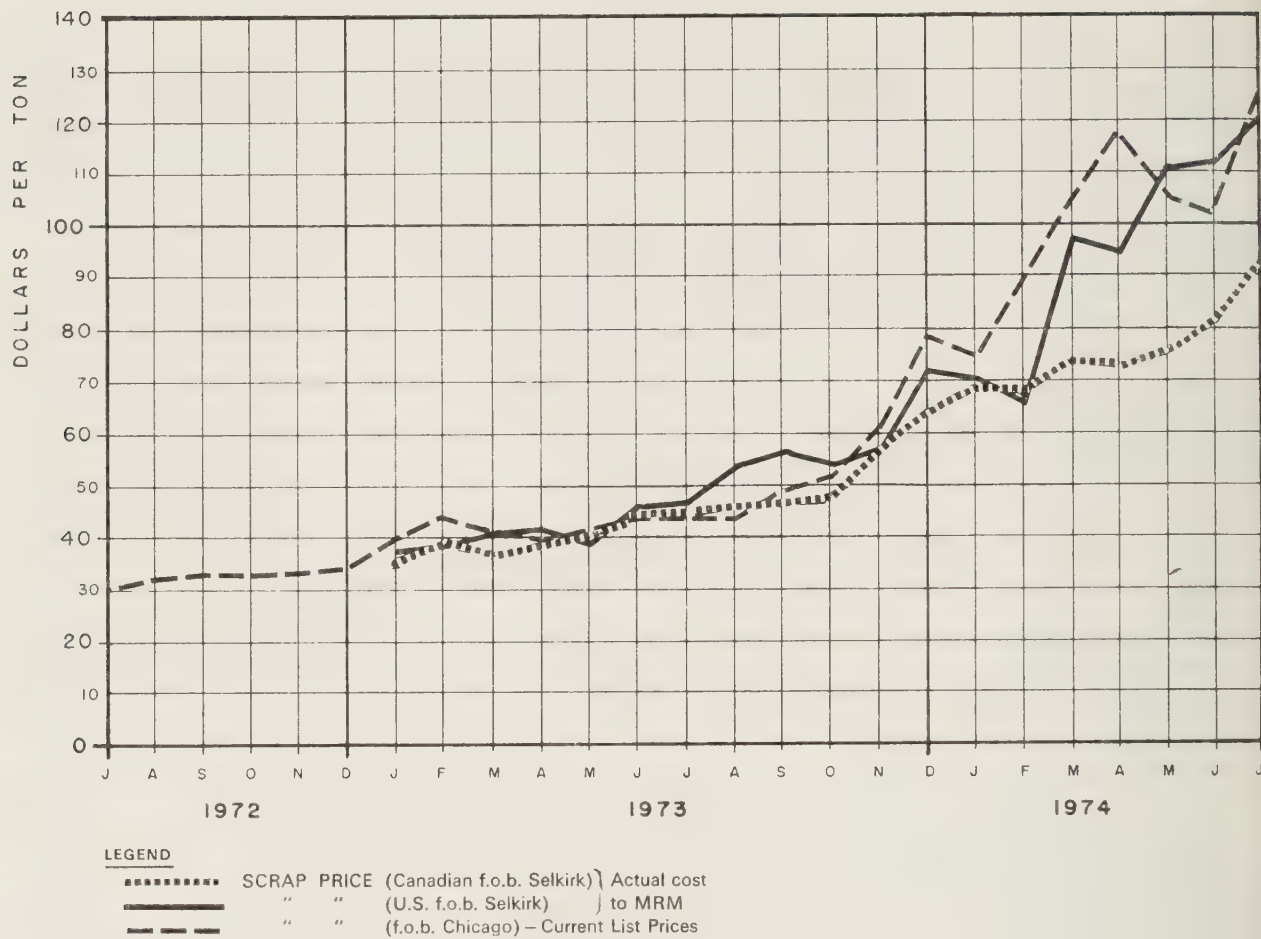
(Signed) F. H. Sherman, Director

See accompanying Notes to Consolidated Financial Statements.

SOURCE: Dominion Foundries and Steel, Limited 10% Sinking Fund Debentures' Prospectus, dated 8 May 1974

APPENDIX "T"

Steel Scrap Price Trend
July 1972 to July 1974



SOURCE: Manitoba Rolling Mills.

